ALCAN ALUMINIUM LIMITED

ALCAN

Annual Report

1998

Growth

Value

Strength

Contents

Annual Meeting

The Annual Meeting of the holders of common shares of Alcan Aluminium Limited will be held on Thursday, April 22, 1999. The meeting will take place at 10:00 a.m. in the Assembly Hall of the International Civil Aviation Organization, Atrium Entrance, 999 University Street, Montreal, Quebec, Canada.

Definitions

The word "Alcan" or "Company" means Alcan Aluminium Limited and, where applicable, one or more consolidated subsidiaries. A "subsidiary" is a company controlled by Alcan. A "joint venture" is an association (incorporated or unincorporated) of companies jointly undertaking some commercial enterprise and proportionately consolidated to the extent of Alcan's participation. A "related company" is one in which Alcan has significant influence over management but owns 50% or less of the voting stock. The "Alcan Group" refers to Alcan Aluminium Limited, its subsidiaries, joint ventures and related companies.

In this report, unless stated otherwise, all dollar amounts are stated in United States dollars and all quantities in metric tons, or tonnes. A tonne is 1,000 kilograms, or 2,204.6 pounds.

The following abbreviations are used:

/t	*per tonne*
kt	*thousand tonnes*
kt/y	*thousand tonnes per year*
Mt	*million tonnes*
Mt/y	*million tonnes per year*

Glossary

Alumina: *Most alumina is a white, powdery substance produced from bauxite by a chemical process during which aluminum oxide is extracted from the ore. Between four and five tonnes of bauxite are required to produce about two tonnes of alumina, which yield one tonne of aluminum.*

Aluminum: *Although aluminum is the most common metal on earth, constituting 8% of the planet's crust, it is never found in its pure form. Aluminum metal is produced by separating aluminum from oxygen in alumina.*

Bauxite: *The most economic source of aluminum is bauxite, an ore or rock composed of hydrous aluminum oxides and aluminum hydroxides. It is predominantly found in tropical and sub-tropical regions.*

Chemicals: *The Alcan Group also produces chemical-grade alumina (alumina hydrate), the starting material for a wide variety of specialty chemical products.*

Fabricated Products: *Generally, fabricated products are rolled products (sheet and foil) as well as rod, wire and cable, extruded and drawn products and castings.*

Litho Sheet: *Aluminum sheet is widely used as the metal plate on which an image is produced for lithographic printing.*

London Metal Exchange (LME): *The LME is a metals trading centre for the Western World. The LME also determines the metal price (per tonne) for aluminum trading for current and future delivery.*

Rolled Products: *At rolling mills, sheet ingots are reduced in thickness by passing them between rollers in a series of reversing hot mills and, finally, in a cold mill. For example, a 30-tonne sheet ingot can be rolled into a coil of up to 2.7 metres in diameter.*

Secondary (Recycled) Metal: *Aluminum ingot can be made by remelting Used Beverage Cans (UBCs) or any other post-consumer scrap, as well as customer process scrap. Recycling aluminum only requires about 5% of the energy required to produce primary metal.*

Sheet and Foil: *Sheet is a flat-rolled metal primarily used for the container, lithography, transportation and building end-use markets. Foil is a thin sheet of metal, usually less than 0.006 inch (0.15 millimeter) thick, and it is widely used in household and commercial packaging and industrial product applications.*

Smelting: *Primary aluminum is originally produced through the electrolytic reduction of alumina (smelting process). The molten aluminum is then cast into ingots and then fabricated into a variety of products.*

Tolling: *Alcan rolls or converts customer-owned metal. This activity is called tolling.*

Alcan Aluminium Limited

Highlights

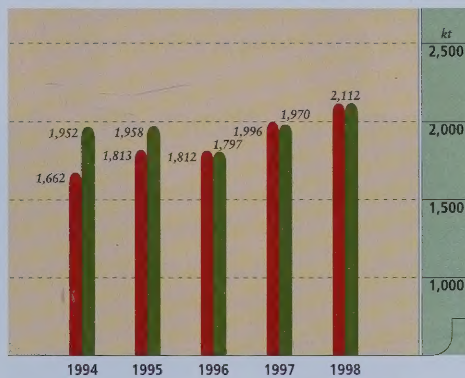
of the Year

Net Income† and Average Three-Month LME Price

Earnings relative to the price of aluminum continued to improve in 1998. Net income was close to the 1996 level despite the metal price being $157/tonne lower.

† Before extraordinary item

Fabricated Products Shipments



Fabricated products shipments

Fabricated products shipments adjusted for acquisitions and divestments

Fabricated products shipments grew 7% with an increased share of key markets achieved. Adjusted for acquisitions and divestments, shipments have grown 60% in the past five years.

	1998	1997	1996
Financial Data *(in millions of US$, except per common share amounts)*			
Sales and operating revenues	**7,789**	7,777	7,614
Net income before extraordinary item	**399**	468	410
Net income	**399**	485	410
Economic Value Added (EVA®)*	**(285)**	(285)	(310)
Return (%) on average common shareholders' equity	**7**	10	9
Total assets (at year-end)	**9,901**	9,374	9,228
Capital expenditures	**877**	641	482
Ratio of borrowings to equity (at year-end)	**24:76**	23:77	23:77
Per common share *(in US$)*			
Net income before extraordinary item	**1.71**	2.02	1.74
Net income	**1.71**	2.09	1.74
Cash from operating activities	**3.25**	3.17	4.34
Dividends	**0.60**	0.60	0.60
Common shareholders' equity (at year-end)	**23.71**	21.43	20.57
Operating Data *(in thousands of tonnes)*			
Fabricated products shipments**	**2,112**	1,970	1,797
Ingot products shipments***	**829**	858	810
Primary aluminum production	**1,481**	1,429	1,407
Secondary/recycled aluminum production	**684**	670	639
Average Three-Month LME Price *(in US$/tonne)*	**1,379**	1,620	1,536

** EVA is a registered trademark of Stern Stewart & Co.*
*** Includes products fabricated from customer-owned metal.*
**** Includes primary and secondary ingot and scrap.*

Profile

Alcan Aluminium Limited, a Canadian corporation, is the parent company of an international group involved in all aspects of the aluminum industry. Through subsidiaries, joint ventures and related companies around the world, the activities of the Alcan Group include bauxite mining, alumina refining, power generation, aluminum smelting, manufacturing and recycling as well as research and technology. Close to 40,000 people are directly employed by the Company.

Alcan . . . the partner of choice.

In the 97 years since it was established, Alcan has developed a unique combination of competitive strengths. The Alcan Group is a multicultural and multilingual enterprise reflecting the differing corporate and social characteristics of the many countries in which it operates. Within a universal framework of policies and objectives, individual subsidiaries conduct their operations with a large measure of autonomy. With operations and sales offices in more than 30 countries, the Alcan Group is one of the most international aluminum companies and a leading producer of flat-rolled aluminum products.

Alcan Aluminium Limited has approximately 20,340 registered holders of its common shares and 860 registered holders of its preference shares. While distributed internationally, the Company's shares are mostly held in North America. The word ALCAN and the Alcan symbol are registered trademarks in more than 100 countries and are synonymous with aluminum the world over.

Growing with Our Partners

Growing with Our Partners is the focus of this year's Annual Report, and *strength, growth* and *value* are at the core of our strategic intent.

Strength reflects Alcan's strong financial state, its healthy debt-to-equity ratio and improved profitability. It also signifies the quality and dedication of Alcan's 40,000 employees. Finally, strength together with light weight, thermal and electrical conductivity, barrier qualities, infinite recyclability and many other characteristics make *aluminum* . . . the *material of choice.*

Growth is working with all our stakeholders to develop and deliver value-added, differentiated aluminum products, bringing increased value to our customers. It means continuous improvement in everything we do – earnings, technology, employee development, safety, and environmental stewardship. Growth is about looking to a new future as we enter the new millennium — fully optimizing our existing assets and aggressively pursuing opportunities to grow shareholder value.

Value is the reason we're here. It is an ongoing commitment — to our shareholders, to our customers, to and by our employees — to create value in everything we do. It also symbolizes Alcan's values — our ethics, our conduct, our reputation.

Value

John R. Evans (left), Chairman of the Board, and Jacques Bougie, President and Chief Executive Officer.

Our Strategic Priorities

- *Establish and implement aggressive new Full Business Potential targets for 1999 and beyond.*
- *Strengthen the position of aluminum in the marketplace through industry leadership and position Alcan as the multinational partner of choice for global customers in select primary and semi-fabricated aluminum markets.*
- *Aggressively seek out opportunities to maximize shareholder value.*

Alcan's aggressive Full Business Potential process helped offset difficult business conditions during 1998, as commodity markets were under pressure and the price of aluminum declined by 20% in the course of the year. We made significant progress towards meeting our commitments in regard to all three strategic priorities that had been identified for 1998.

Full Business Potential on target

In terms of Full Business Potential, we are right on target, having reached two-thirds of our ambitious goal — to improve pre-tax earnings by $450 million over a three-year period. A substantial portion of the improvement realized during 1998 was accounted for by our fabricated products sector where we gained market share and our shipments worldwide grew by 7% — for a total increase of 60% since 1993. Also, in our alumina operations we achieved a $10-per-tonne savings in production costs on top of a similar reduction the previous year.

Alcan's Full Business Potential program is a continuous improvement process in pursuit of earning, at a minimum, our cost of capital — the key to creating shareholder value. We are currently setting ambitious new targets for 1999 and beyond.

Strengthening aluminum in the marketplace

Through active participation of senior managers in major North American and European trade associations, we exercised global leadership on key industry issues ranging from the value of aluminum recycling to trade issues and environmental matters.

Growth

Fabricated products shipments worldwide grew by 7% — for a total increase of 60% since 1993.

Maximizing shareholder value

Certain strategic initiatives in our alumina and chemicals sector were undertaken in 1998, such as our bauxite-related arrangements in Australia and Ghana, modernization of our alumina refinery in Quebec and disposal of certain assets in Ireland, Guinea and Quebec. Other significant achievements in 1998 were:

- A 10-year strategic alliance with General Motors.
- Commencement of construction of the US$1.6-billion Alma, Quebec, smelter project.
- An 18-year agreement on operational stability with unionized employees in Quebec.

- Repositioning and consolidation in the Asia/Pacific region, obtaining majority interest in Indian Aluminium Company, Limited (54.6%) in India and reducing our share in Nippon Light Metal Company, Ltd. in Japan to 11.2%.
- Major expansion of the Pindamonhangaba, Brazil, rolling mill, now close to completion with over 5 million construction hours without an accident, and a new recycling plant up and running.
- Dynamic performance by Alcan's North American fabricated products operations, which achieved positive EVA® in each of its businesses.

Insofar as EVA, or Economic Value Added, is concerned, neither Alcan nor others in the industry have earned their cost of capital for some years now. That was the case again in 1998. On a positive note, however, Alcan was able to maintain the same EVA as in 1997 despite much lower metal prices. In other words, we continue to increase the underlying profitability of the Company.

Customer focus paying off

There is no doubt that the stellar performance of Alcan's North American fabricating operations — which are now able to boast of industry-best practices in a number of areas — was a factor in attaining the multi-billion-dollar General Motors supply agreement. The operational stability agreement with our Quebec workers helps ensure that automobile manufacturers and other customers will have a reliable supply of metal.

EVA is a registered trademark of Stern Stewart & Co.

EVA — a Key Measure of Performance for Alcan

Alcan has made excellent progress over the past several years in terms of achieving its strategic objectives, thanks in large part to the success of our ongoing Full Business Potential process. As we continue to move forward, it is imperative that we have tools in place that enable us to assess our performance by a consistent measure and — perhaps more importantly — help us identify areas that offer the greatest opportunity for further improvement.

EVA, an acronym for economic value added, provides us with such a tool. It measures real profitability — the difference between the return on capital and the cost for using that capital over the same period. If returns exceed our cost of capital, we have created value. EVA also provides a platform for linking management compensation to the creation of value. It enforces an entrepreneurial culture wherein employees think and act like owners of the Company.

Dozens of other major corporations worldwide already have adopted EVA, and have found there is a correlation between an improving EVA and an increasing share price. Not surprisingly, many investors now look to EVA as a key indicator of the real return they are receiving on their investments.

With EVA in place, Alcan is in a better position to fulfill its commitment to increasing shareholder value and realizing the full potential of all its operations.

Alcan's determination to position itself as the most-responsive and lowest-cost supplier in its chosen markets is the main motivation behind the current realignment of our European operations. As such, we must be able to anticipate the changing needs of our customers in Europe, and to provide a consistently high level of customer service.

Strength

We are determined to optimize our growth potential by strong customer partnerships and market leadership, providing value-added, differentiated aluminum products.

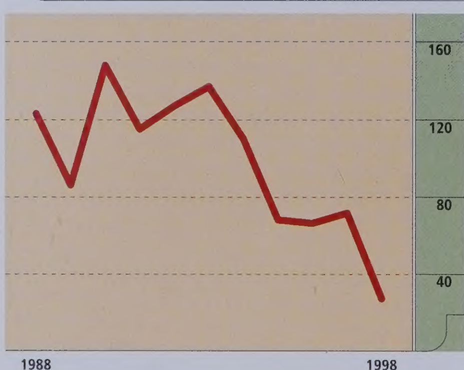
In Brazil, too, Alcan's customer focus is evident in our decision to invest in the expansion of our Pindamonhangaba rolling facility and enhance our position as the only domestic supplier of can sheet to that country's rapidly growing beverage industry — another of the global customer groups that we have targeted.

Setting new standards for workplace safety and the environment

At Alcan, we view our record in the area of employee health and safety as an important indicator of the organization's overall performance. Our ultimate goal is zero work-related injuries and illnesses. We are pleased to note a much-improved performance throughout the Alcan Group in 1998, with significant reductions in key indicators such as Recordable Case and Days Lost rates. Especially noteworthy is the achievement of the workers and managers at our rolling mill expansion project in Brazil, who surpassed 5 million construction hours without a lost-time accident. That is a truly remarkable feat — and augurs well for a smooth start-up of the expanded facility.

Days Lost Rate

Annual Days Lost Rate/100 employees



The Days Lost Rate is the number of days missed due to occupational injuries or illnesses in 100 employees working one year (200,000 hours). During recent years, Alcan employees have worked diligently to improve the Days Lost Rate.

During the year, Alcan also exercised industry leadership in terms of environmental responsibility, with the revision to its corporate environmental policy. The comprehensive policy statement encompasses six guiding principles, which raise the bar in terms of the standards by which the aluminum industry facilitates sustainable development and operates in a manner compatible with the environment.

Acknowledgments

An organization's performance stands or falls on the strength of its people — and the results of Alcan's second global survey of employees underscore how fortunate we are in terms of the remarkable *esprit de corps* that exists throughout the Alcan family. In terms of teamwork, for instance, the favourable response by Alcan employees was almost 20 percentage points higher than the average for major North American-based businesses. We would like to thank the entire Alcan team for their hard work and dedication during a difficult year.

Alcan's Board of Directors also wishes to express its sincere appreciation to Sonja Bata and Bill Blundell, who will not be standing for re-election at the Annual Meeting of Shareholders in April this year, having reached retirement age. We are grateful to Mrs. Bata for her 20 years of valued contribution, serving on the Audit Committee from 1981 to 1992 and then as an ardent member of the Environment Committee. We also wish to express our thanks for the wise counsel of Mr. Blundell, who joined the Board in 1988 and served as a member of the Audit Committee, becoming its Chairman in 1996.

We welcome Paul M. Tellier, President and Chief Executive Officer of Canadian National Railway Company, to Alcan's Board of Directors, and wish to thank our fellow Board members for their unstinting support and counsel.

Outlook

It appears that 1999 will be another challenging year for the aluminum industry, with Western World aluminum consumption forecast to grow by only 1% and metal prices expected to remain low. However, Alcan has a strong balance sheet and intends to be an active participant in the on-going restructuring of the industry. We will seek out appropriate acquisition opportunities as an additional way of building shareholder value.

We will optimize our growth potential by strong customer partnerships and market leadership, providing value-added, differentiated aluminum products. We believe we can be the best partner in our chosen markets. *Strength, growth* and *value* are the core of our strategic intent.

John R. Evans
Chairman of the Board

Jacques Bougie
President and Chief Executive Officer

February 11, 1999

Growing with Our Partners

Growth

Strength, growth and value

are at the core of Alcan's strategic intent. We do more than make and sell aluminum — we build alliances with all our stakeholders. We also take pride in developing and delivering value-added, technically advanced aluminum products, making Alcan the partner of choice.

David Moore (right), vice president and director of technology for Alcan Global Automotive Products, examines an aluminum deck lid with Roland Harings, sales and marketing manager for European auto sheet.

Aluminum's combination of light weight and high strength allows automakers to improve fuel economy and reduce emissions without compromising safety. With crash test studies on aluminum cars showing equal or better performance than steel equivalents, aluminum will be key to safely bridging society's environmental needs with regional preferences for size, comfort and affordability.

Alcan is positioned to be the leading supplier of aluminum sheet to the global auto industry.

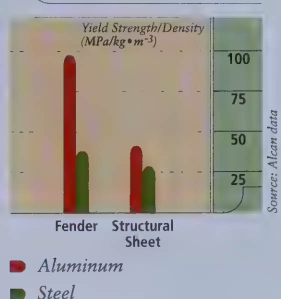
The automotive sector represents one of aluminum's — and Alcan's — most exciting opportunities for the next millennium. Significant market growth is anticipated in everything from car structures and body panels to powertrains, chassis components and brake rotors.

A decade of automotive research and development has established Alcan as a world leader in delivering solutions to bring the benefits of aluminum to every aspect of the vehicle value chain — from design to recycling. Alcan's patented alloys and proprietary technologies are key contributors to the growing acceptance of aluminum as the preferred material for a new generation of safe, light-weight and fuel-efficient vehicles.

Alcan's technology allows the application of aluminum sheet using techniques that are compatible with existing high-volume automobile production methods — easing the transition to aluminum.

Kingston Works, in Canada, is an integral part of Alcan's North American rolling system producing aluminum sheet with the exceptional surface quality and formability required by automakers. This plant was the first of several Alcan facilities to earn QS-9000 status — the auto industry's quality supplier designation.

Strength-to-Weight Ratios



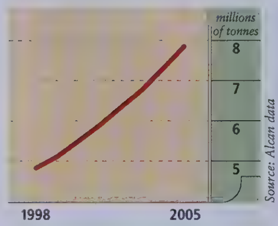
Aluminum's high strength-to-weight ratio enables car structures and body panels to be lighter than steel but just as strong.

As a result, Alcan is positioned to be the leading supplier of aluminum sheet to the global auto industry. This market represents potential annual sales of 300,000 tonnes for Alcan within a decade.

Alcan's automotive success is the product not only of technology, creativity and commitment but also the result of building strategic alliances with leading automakers worldwide. An example is the landmark partnership and ten-year supply agreement signed with General Motors in late 1998. This strategic alliance not only helps to resolve the long-standing issue of stable metal costs, it also provides a framework for continued joint research and development aimed at expanding the use of aluminum in GM's cars and trucks.

Alcan has planned ahead to meet the demanding requirements of the automotive market,

Global Growth Forecast



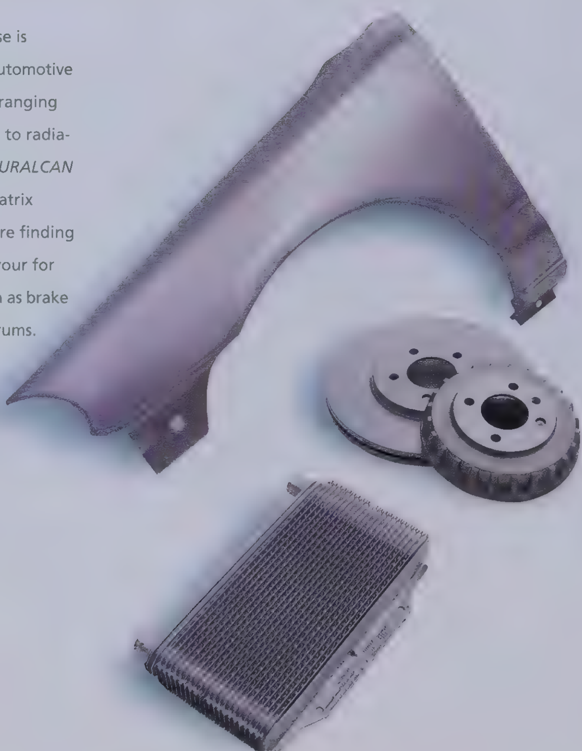
The use of aluminum in automobiles is expected to reach between seven and eight million tonnes by 2005.

Increased Fuel Efficiency

Extensive use of aluminum could cut the weight of a family sedan by 40% and improve fuel efficiency by 24-32%.

Alcan has planned ahead to meet the demanding requirements of the automotive market, particularly in sheet applications.

Aluminum use is growing in automotive applications ranging from fenders to radiators, while *DURALCAN* aluminum-matrix composites are finding increased favour for products such as brake rotors and drums.



particularly in sheet applications. In the last decade, we have invested over $1 billion in our world-class rolling system. Moreover, the $1.6-billion Alma smelter under construction in Quebec will further ensure the reliability of metal supply to all our customers.

Moreover, the recent creation of Alcan Global Automotive Products as a new business unit will enable the seamless, system-wide integration of Alcan's automotive business initiatives worldwide — advancing our pursuit of aluminum-intensive vehicles with high-volume automakers.

A body-in-white for an aluminum-intensive vehicle, built with Alcan's exclusive Aluminum Vehicle Technology (AVT) system.

By the time the next generation takes to the road, cars will be lighter, even more energy efficient and more responsive. Aluminum will be the prime reason for these advances and Alcan's technology will help to make that happen.

Not only is Alcan a supplier of choice in the automotive market, but we also have strategic partnerships in the all-important containers and packaging sector as well as in other products such as lithographic sheet. Similarly, we are pursuing relationships with customers in the fin stock product sector. In the electrical cable market, strong customer alliances build extra value in our products and service, while in the building and construction sector our metal is frequently specified for major projects around the globe.

Through these partnerships, Alcan offers unique value. We develop and produce technically advanced, differentiated, semi-fabricated products and our continued investment in rolling and recycling facilities strengthens our position as a market leader in our chosen product sectors.

Aluminum's light weight, formability, barrier qualities and thermal conductivity make it the ideal material for food and beverage packaging. Aluminum containers can be shaped, coated and embossed for functional and decorative purposes.

Strong customer alliances build extra value in our products and service.

Aluminum beverage cans have a higher salvage value than competing materials — the economic value of the used beverage cans recycled by Alcan worldwide in 1998 is estimated at $370 million.

The aluminum beverage can continues to grow as a premier package for end users. Aluminum's properties, including complete recyclability with no deterioration in quality as well as the value incentive for collection, provide a unique market niche for aluminum beverage cans when compared to competing materials. Alcan's North American can stock shipments were up in 1998, eclipsing the previous record, outperforming the industry average and increasing market share. Industry gains were driven by a rise in can shipments to 103 billion cans in the U.S. alone. Alcan's recycling levels in North America also topped the previous year with over 20 billion cans.

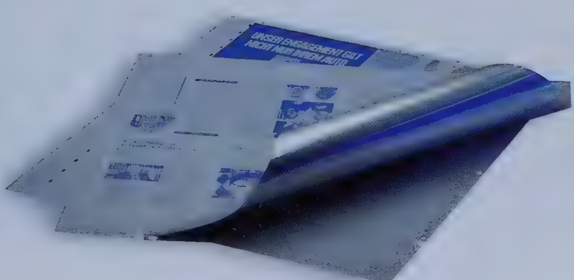
In South America, can sheet consumption has grown by about 20% per year since 1996. Alcan's $370-million expansion of the Pindamonhangaba plant in Brazil will start up in 1999 — the largest aluminum rolling operation in the region and the only one capable of producing can sheet. A new recycling facility, with an ultimate capacity of 80,000 tonnes per year, is already operational as part of the Brazilian expansion.

In Europe, aluminum food packaging represents about 35% of the European rolled products market, while in Asia, aluminum continues to gain market acceptance.

Alcan's other markets for aluminum include lithographic offset printing, where aluminum sheets with unsurpassed surface quality and flatness are imperative. For the printing process, an image is transferred to a flat lithographic sheet, ink is applied and a print is made by passing the image via a rubber roll to the paper. Aluminum lithographic sheets are ideal for this process and, once used, they are easily recycled.

Alcan is also a major supplier of aluminum transmission and distribution cable to public utilities as well as a producer of aluminum alloy building wire for the construction industry. Once again, Alcan's strength in innovation, quality and delivery distinguish the Company from the competition and clear the way for developing strategic alliances with customers.

In addition, Alcan produces value-added extrusion ingot for independent extruders who fabricate products in an almost unlimited range of profiles and shapes. Extrusions are generally destined for the building and construction market, but no matter what the application, architects and designers find that aluminum's high strength-to-weight ratio, versatility, durability and decorative potential offer unique advantages.



Alcan aluminum lithographic sheet offers the printing industry unsurpassed surface quality and flatness — it is also 100% recyclable.

Aluminum is an indispensable part of our modern technological society. Perhaps it is most evident in the form of aluminum beverage cans and foil products, but the metal is now found all around us — ranging from high speed trains and supersonic airplanes to building products and sporting equipment. The newspapers and magazines that we read are often printed using aluminum lithographic sheets and our refrigeration and electronic components frequently contain aluminum.

Aluminum is the material of choice in many applications — from bridges in Scandinavia and Canada to the curtain-wall cladding on the world's tallest building, the Twin Towers complex in Malaysia. In the automotive sector, fenders, doors and deck lids are now being made of aluminum sheet and soon we'll see more aluminum body structures. Driveshafts and brake rotors made from *DURALCAN* aluminum-matrix composites are already in production. And we see aluminum signs at the side of the road as we pass towers supporting aluminum electrical cable.

As society continues to look for products that can be recycled economically, aluminum will continue to gain ground against competing materials.

Corporate Social Responsibility

Strength

Alcan is committed

to industry leadership in occupational health and safety, community relations and environmental performance. The strength of this commitment stems from the participation and determination of our employees, both on the job and as volunteers in local community initiatives.

Community and Environment

Just as sustainable growth requires an integrated business strategy, Alcan's community programs frequently combine the concepts of environmental management and education with aluminum's recyclability and unique properties.

Community recycling programs often depend on collecting used aluminum beverage cans, demonstrating one aspect of aluminum's growing value as a material of choice. Protection of the environment is a high priority for every Alcan employee, requiring a continuing effort to improve our products and processes.

Health and Safety

A continued trend in the reduction of Alcan's work-related injuries and illnesses was evident in 1998. The commitment of all employees is a key factor in creating a work environment that enhances safety excellence.

As we strive for continual improvement in occupational health, industrial hygiene and safety, we are focused on reviewing and updating our methodology for managing these areas within all Alcan Group companies. Similar to the management system approach used to achieve accreditation to quality or environmental standards, these efforts will lead to a global shift in the manner in which all Alcan employees approach workplace health and safety.

In 1998, Behavioural Based Safety (BBS) was reviewed as an innovative tool to improve health and safety performance. Founded on scientific principles, BBS incorporates ongoing problem solving and employee involvement. It identifies and corrects existing systems that produce at-risk behaviour and develops new systems to encourage safe behaviours. BBS will complement our existing management approach and strengthen Alcan's position in occupational health and safety.

Protection of the environment is a high priority for every Alcan employee.

In 1998, Alcan set a goal to strive for environmental leadership within the industry. We will continue to develop and implement state-of-the-art environmental systems and adopt world-class practices for land use and residue disposal.

And, by working in partnership with customers and suppliers, we will help to create products that take full advantage of aluminum's properties throughout the product life cycle. For all our stakeholders, the message is clear — at Alcan, environmental standards are not negotiable.

All employees have the responsibility of identifying occupational health and safety hazards.

Community investment programs include initiatives such as this one at Alcan Jamaica Company, where environmental studies for primary school students are part of an Outreach Program.

Alcan sponsors wheelchair athlete Chantal Petitclerc who is on her way — riding on aluminum — to the 2000 Olympic Games.

Sponsoring an international athlete is not an everyday occurrence for Alcan, but with Chantal Petitclerc, a world-class, wheelchair athlete, it is a golden opportunity. Chantal is a five-time medal winner at the 1996 Paralympics at Atlanta and a world-record holder in the 100-metre event. She has also won the hearts of Alcan employees around the globe.

Alcan employees worldwide are involved in their communities, offering support to charitable causes and recycling projects. Alcan continues to assist communities in need, such as those affected by hurricanes Georges and Mitch in North and Central America.

Alcan recognizes the need to contribute to the advancement of knowledge and know-how, especially with the young leaders of tomorrow.

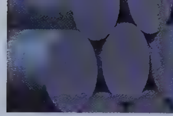
Community and Education

Alcan recognizes the need to contribute to the advancement of knowledge and know-how, especially with the leaders of tomorrow.

Initiated by Alcan, the popular program, *Working for a Better Tomorrow,* is now mushrooming into a global network of elementary school, environment-related microbusinesses. Since its launch ten years ago in Quebec, the program has grown to include two regional efforts in Brazil, nine schools in Canada and, this year, the first U.S. project was inaugurated near Alcan's Sebree smelter in Kentucky.

Mentorship programs in Europe and Canada continue to be very successful. For example, as one of the largest participants in the Canadian apprenticeship program, *Career Edge,* Alcan has provided, in the past two years, over 100 university graduates with their first work experience. Also, Alcan introduced a Research Fellowships Program for masters or doctoral level students at selected universities in Canada.

École Saint-Pierre in Alma, Quebec, was the first school to embark on Alcan's program, *Working for a Better Tomorrow.* Among other activities, students recycle paper into greeting cards and collect and sell aluminum cans.



The Alcan Group's Businesses at a Glance*

(As at February 11, 1999)

Europe and Pacific

North and South America

- Bauxite Mining/Reserves
- Alumina Refining
- Specialty Chemicals
- Primary Aluminum Smelting
- Super Purity Aluminum Refining
- Recycling/Secondary Smelting/ Used Beverage Can (UBC) Recovery
- Sheet and/or Foil Rolling
- Other Fabricating

Alcan also has sales/marketing offices, research and technology facilities or other activities in Austria, Belgium, Bermuda, Denmark, Finland, Hungary, Japan, Korea, Poland, Portugal, Russia, Sweden and The Netherlands.

* *Includes subsidiaries, joint ventures and related companies and reflects the sale of alumina refining operations in Ireland and Guinea and of a chemicals operation in Canada as well as the reduction of the interest held in Nippon Light Metal Company, Ltd. (NLM) in Japan.*

Between four-to-five tonnes of bauxite are needed to produce about two tonnes of alumina, which yield one tonne of aluminum.

Alumina and Chemicals

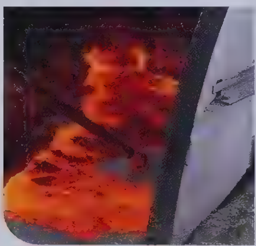
Operations*	1998 Highlights
• 10 **bauxite mines/reserves** in 6 countries with 400 Mt of demonstrated reserves.	• 11.3 Mt used. • $29 million in bauxite third-party sales.
• 9 **alumina plants** in 6 countries with 3.7 Mt of annual capacity.	• 5.0 Mt produced. • $288 million in alumina third-party sales.
• 6 specialty **chemicals plants** in 3 countries.	• $184 million in sales.

In addition to the sales of bauxite, alumina and specialty chemicals indicated above, Alcan's non-aluminum products account for $207 million in sales.

Strategy and 1998 Achievements

Optimize Alcan's alumina and bauxite asset base, while providing low-cost alumina to the primary metal business.

- Acquired majority control of Ghana Bauxite Company Limited in Africa.
- Agreement on sale of alumina refining operations in Ireland and in Guinea, as well as a chemicals business unit in Quebec.
- Achieved production records in all core refineries.
- Acquired a 20% equity participation in the Utkal alumina project in India.



Primary aluminum is produced through the electrolytic reduction of alumina (smelting process).

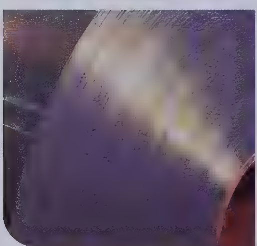
Primary Metal

Operations*	1998 Highlights
• 16 **smelters** in 5 countries with 1.7 Mt of annual capacity.	• 1.5 Mt of ingot produced. • 648 kt of ingot purchased. • $1.0 billion (648 kt) in ingot sales.†

Strategy and 1998 Achievements

Be the best producer of low-cost primary aluminum in the world.

- Concluded an 18-year agreement for operational stability with Quebec unionized employees.
- Construction of the 375-kt/y smelter in Alma, Quebec, proceeding on time and on budget.
- Six smelters achieved record volume production.



Fabricated products are rolled products (sheet and foil) as well as rod, wire and cable, extruded and drawn products and castings. The principal end-use markets are: Containers and Packaging, Transportation, Electrical, and Building and Construction.

Fabricated Products

Operations*	1998 Highlights
• **Rolled Products**	• $4.2 billion (1,604 kt) in sales.††
• **Other Fabricated Products**	• $1.1 billion (219 kt) in sales.
• **Total Fabricated Products** Over 50 manufacturing plants in 13 countries and 2.5 Mt of annual capacity.	• 44 kt of fabricated products purchased. • $5.3 billion in sales.†† • 2.1 Mt of aluminum fabricated in Alcan facilities.
• **Secondary/Recycled Aluminum** 9 recycling plants in 6 countries with 752 kt of annual capacity.	• 684 kt produced. • 535 kt of scrap purchased. • $142 million (96 kt) in ingot sales. • $101 million (85 kt) in scrap sales.

Strategy and 1998 Achievements

Grow Alcan's leading position in differentiated, semi-fabricated products in our chosen markets through long-term customer partnerships and low-cost manufacturing excellence.

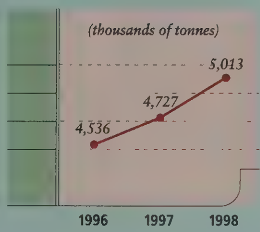
- Concluded a 10-year preferred supply agreement with General Motors.
- Realigned our interests in the Asia/Pacific region. Obtained majority interest in Indian Aluminium Company, Limited and divested part of stake in Nippon Light Metal Company, Ltd.
- Negotiated the sale of piston business in Nürnberg, Germany.
- Increased North American sheet sales from existing facilities by 13%, recording market share gain in major segments.

* *As at February 11, 1999*

Alumina and Chemicals

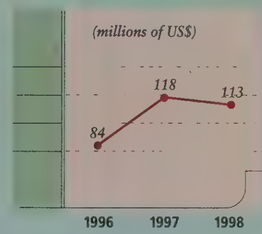
Alumina Hydrate Production

Production increased at most alumina refineries and, in addition, Indian Aluminium Company, Limited in India is included as of the third quarter of 1998.



Total Sector Operating Income

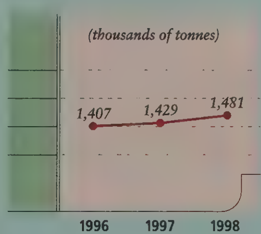
Lower prices for alumina were offset by increased production and cost reductions.



Primary Metal

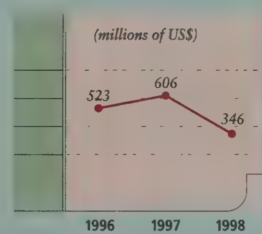
Primary Production

Record production volume was achieved at six of the Company's smelters.



Total Sector Operating Income

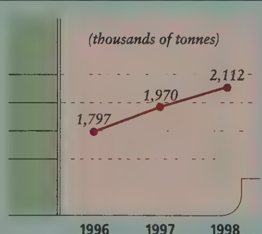
The decline in income reflects lower metal prices mitigated in part by lower alumina costs and higher production.



Fabricated Products

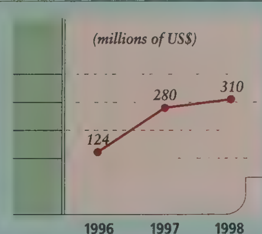
Fabricated Products Shipments

In 1998, market share increased in North America and was consolidated in Europe after a sharp increase the previous year.



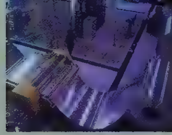
Total Sector Operating Income

All North American businesses achieved positive EVA in 1998 and improvements were made in Europe.



† *also includes purchased ingot.*

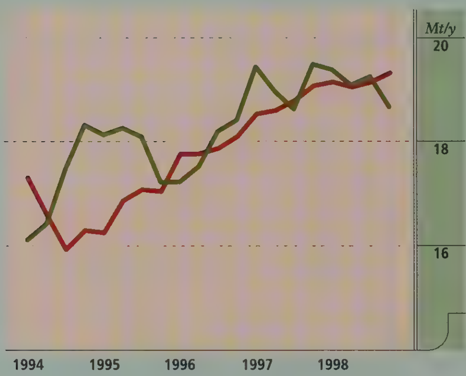
†† *excluding fabrication of customer-owned metal.*



Value

In a tough external environment, Alcan continues to improve its profitability. Despite metal prices 15% lower, Economic Value Added (EVA®) was unchanged in 1998.*

Western World Primary Aluminum Supply and Demand

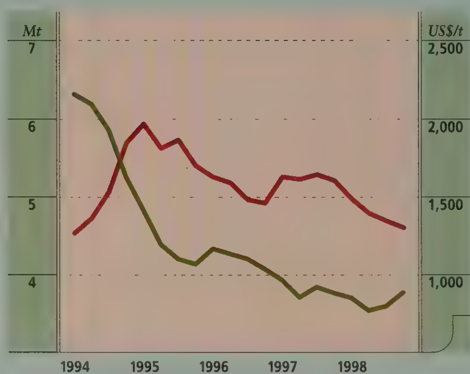


Production plus imports from C.I.S.

Shipments (seasonally adjusted)

From peak levels at the end of 1997, demand eased throughout 1998. Supply declined during the first half due to weather and technical problems before increasing late in the year.

Total Aluminum Inventories and Ingot Prices



Total inventories (IPAI, LME)*

LME three-month prices

* *International Primary Aluminium Institute.*

Reported inventories declined in the first half and then rebounded. Prices continued to decline throughout the year.

* *EVA is a registered trademark of Stern Stewart & Co.*

World Market Review

Primary Aluminum

Consumption of aluminum in the Western World* fell 1.1% in 1998 as Asia's financial difficulties worsened and spread to the rest of the world. This was the first decline in demand for aluminum since 1982. The Asian downturn spread to the United States and Europe where the rate of growth slowed towards the end of the year. Latin America remained the strongest market, with consumption up 4.9%, but this was far below the 16.7% increase in 1997. Growth rates for both North America and Europe declined by more than half in 1998, to 3.0% and 3.1%, respectively. Aluminum consumption in Asia dropped by 11.6%, after a small gain of 0.7% in 1997. In sum, Western World aluminum demand for 1998 totalled 25.4 Mt of which demand for primary metal was 18.8 Mt.

Primary aluminum production in the Western World increased 2.3% in 1998 to 16.4 Mt as brownfield and greenfield capacity came on-stream and some idle capacity was restarted. During the year, about 400 thousand tonnes (kt) of capacity was unutilized because of labour, technical and weather problems. Of this, 300 kt is expected to return to production in 1999. Voluntarily idled capacity accounted for another 700 kt.

Exports of primary aluminum from the C.I.S. to the West totalled 2.7 Mt, an increase of some 2% over 1997. Chinese primary production is estimated at 2.38 Mt, an increase of 16% over 1997, which, with lower GDP growth, has eliminated the net imports into China from the West.

Supply of primary aluminum increased by 2.1% so, with the decline in demand of 1.1%, the market went into surplus. Inventories in the hands of primary aluminum producers and in London Metal Exchange (LME) warehouses were little changed at 3.7 Mt, equivalent to about 10.3 weeks of consumption. However, total inventories, including unreported stocks are estimated to have increased some 325 kt during 1998 and, assuming only a modest recovery in demand, are expected to build up further in 1999.

Ingot prices declined during most of 1998, closing the year near the low point at an LME three-month price of $1,244/t. The average price for the year was $1,379/t, 15% lower than the average of $1,620/t in 1997.

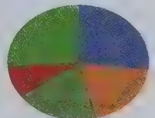
Western World Consumption Versus Alcan Sales

It is estimated that total Western World aluminum consumption in 1998 was 25.4 Mt, three-quarters of which was supplied from primary sources and the remainder from recycled metal. This decrease of 1.1% from the previous year follows an increase of 5.4% in 1997.

Alcan's total shipments increased 4% to 2.9 Mt. Ingot shipments fell 3.4%, while fabricated products shipments rose 7.2% reflecting the achievement of increased market share in a number of key segments. The increased shipments largely offset the metal price decline, resulting in revenues being unchanged at $7.8 billion.

1998 Western World Aluminum Consumption by End-Use Market

(25.4 million tonnes)

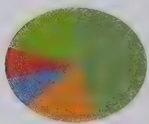


- *27% Transportation*
- *19% Building and construction*
- *19% Containers and packaging*
- *9% Electrical*
- *26% Other*

* *Defined as the world excluding the Commonwealth of Independent States (C.I.S.), Eastern Europe and China.*

Alcan's 1998 Fabricated and Non-Aluminum Sales by Market

(US$6.1 billion)



- *45% Containers and packaging*
- *17% Building and construction*
- *9% Transportation*
- *9% Electrical*
- *20% Other*

The largest market for aluminum, namely transportation, grew by only 0.4% to 6.9 Mt following growth of 8.5% the previous year. In the United States, aluminum consumed in the transportation sector grew by 4.9% to 3.1 Mt despite a strike by workers at General Motors Corporation that hurt light vehicle production, but this was offset by a 10% decline in Japan as vehicle production declined. Alcan's revenues from this market increased some 10% in 1998 and accounted for 9% of its revenue.

The containers and packaging market held steady at the 1997 level to consume 4.8 Mt of aluminum. It accounted for 45% of Alcan's revenues. Industry can sheet shipments rose 1.3% to 3.4 Mt, with a large 15.4% rise in Brazil, despite the country's economic difficulties. The can sheet market in the United States continued its growth, increasing by 1.5% to 1,849 kt. Alcan's revenues from containers and packaging worldwide increased about 8% led by an increased share of the substantial North American can sheet market.

Building and construction suffered a 5.2% fall, to 4.8 Mt. Growth in the United States due to strong residential housing starts was offset by major declines in Asian countries such as Japan, where housing starts were down sharply, resulting in a decline in demand from construction of 15%. Alcan's revenues from this sector increased 10% and accounted for 17% of the Company's sales revenue.

Fabricated products shipments continued to rise in 1998 as Alcan increased its share of key markets.

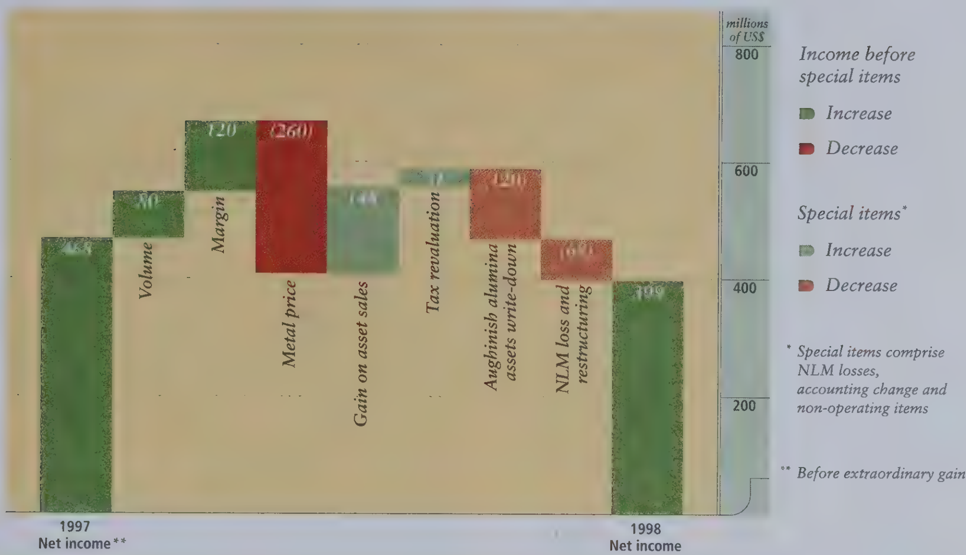
Consumption of aluminum in the electrical market rose a modest 0.9% to 2.3 Mt. Growth included a strong 28% rise in Brazil with increased investment in electrical distribution. Alcan's revenues from this market were little changed, accounting for 9% of the Company's total revenue.

Other markets include machinery and equipment, and durable goods. Total aluminum consumption in these smaller markets fell approximately 1.5%. Alcan's revenues in the "other" category, which include sales of alumina and chemicals, were about 7% lower in 1998, with a strong increase in distributor shipments in the U.S. offset by lower prices for alumina. This comprised 20% of Alcan's revenue.

Strategic alliances and long-term supply partnerships build a strong future at Alcan Cable.

Photo: Hydro-Québec

Analysis of Change in Net Income



Results of Operations

Alcan reported consolidated net income for 1998 of $399 million compared to $485 million in 1997 and $410 million in 1996.

The chart above analyzes the principal components of the change in net income between 1997 and 1998. Metal prices were sharply lower — the average three-month LME price declined 15% from $1,620/t to $1,379/t and was 10% below the 1996 level of $1,536/t. This was offset in large part by continued increases in fabricated products sales volume and improved margins due to cost reductions, improvement in product mix and the lag in passing on lower metal prices.

In terms of Economic Value Added (EVA), the metal price decline was fully offset — EVA for 1998 was the same as 1997 at $(285) million and improved over the 1996 level of $(310) million.

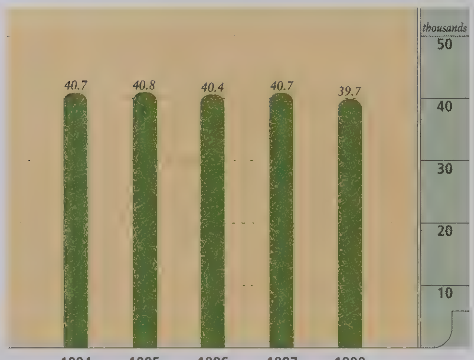
Also included in the 1998 result were a number of offsetting items totalling a net after-tax loss of $9 million. Operating losses and business rationalization costs at Nippon Light Metal Company, Ltd. (NLM) in Japan of $53 million and restructuring costs elsewhere of $15 million were incurred. As a result of the impending sale of the Company's alumina refinery in Ireland, the book value of that asset was written down to the level of the expected sale proceeds, resulting in an after-tax charge of $120 million. These charges were offset by gains on the sale of shares in NLM and a chemicals business in Canada of $148 million after taxes, and a gain on currency revaluation of deferred income taxes of $31 million which resulted from the adoption of a new accounting standard.

The 1997 result included an extraordinary gain of $17 million arising from the sale of a portion of a contract to supply power to B.C. Hydro, net of additional write-downs of remaining Kemano Completion Project (KCP) assets. In addition, 1997 earnings included a net after-tax gain of $6 million arising from a favourable tax adjustment and gain on sale of businesses offset in part by contract losses and restructuring at NLM. Operating losses at NLM were $7 million in 1997.

For 1996, net income included net after-tax charges of $23 million relating to restructuring and early retirement of debt, offset by gains on business disposals and prior-period tax adjustments.

The Company's Full Business Potential program, launched in 1997, continued to make good progress towards achieving its goal of a $450 million pre-tax improvement in profitability compared to the 1996 base, by the end of 1999. Following improvements of $160 million in 1997, a further $140 million has been achieved in 1998 for a total of $300 million at the end of 1998. In the alumina and chemicals sector, gains of $80 million have been made through lower costs and increased production volume. Primary metal operations have achieved $20 million through improved smelter efficiencies resulting in increased output. In fabricated products operations, North America and Europe have achieved improvements of $220 million in the two-year period through higher capacity utilization leading to lower unit costs as well as absolute cost reductions in Europe. Other regions have shown some slippage amounting to $20 million due to adverse economic conditions in Asia and Brazil. It is anticipated that the goals of the current program will be achieved by the end of 1999 and a further challenging target of earnings improvement will be set for the years beyond.

Number of Employees



Adjusted for business acquisitions and disposals (at year-end)

Productivity continues to improve — a 7% increase in fabricated products shipments and higher primary production was achieved in 1998 by fewer people.

Revenues

(millions of US$)	1998	1997	1996
Sales and operating revenues	7,789	7,777	7,614
Total aluminum shipments *(kt)*	2,941	2,828	2,607
Average sales price realizations *(US$/t)*			
Ingot products	1,558	1,739	1,658
Fabricated products	2,923	2,999	3,279

Sales and operating revenues, at $7,789 million, were slightly above the 1997 level and 2% higher than in 1996. This essentially stable level of revenues, in the face of lower metal prices, reflects continued increases in sales volume and, in 1998, an improved spread of fabricated products prices over the underlying metal price. This reflects, in part, the time-lag in changes in metal prices flowing through to fabricated products prices. In addition, realizations are affected by the translation into U.S. dollars of sales expressed in European currencies that weakened in 1997 and showed some recovery against the dollar in 1998.

Other income, which comprises interest income and other non-operating gains, was $231 million in 1998 compared to $88 million in 1997 and $75 million in 1996. Other than interest received on surplus cash, the main items included under this heading were gains on disposal of assets which, in 1998, amounted to $156 million before taxes, primarily from the sale of shares in NLM.

Costs and Expenses

Despite progressively higher sales volumes, cost of sales and operating expenses increased only 1.2% in 1998 and 1.5% in 1997. This improvement in unit costs primarily reflects higher capacity utilization, cost reductions and the lower cost, in 1998, of purchased metal.

(kt)	**1998**	1997	1996
Purchases of aluminum			
Ingot products	648	732	509
Scrap	535	482	446
Fabricated products	44	40	48
	1,227	1,254	1,003

Purchases of primary ingot declined in 1998 as more of the fabricating sector's requirements were met by the Company's own smelters and increased recycling of scrap.

Depreciation expense increased to $462 million from $436 million in the previous year and a similar level in 1996 reflecting the higher levels of capital expenditure in 1997 and 1998.

Selling, administrative and general expenses, at $448 million, were little changed from the 1997 level, which was some 5% higher than 1996. This reversal of the declining trend of recent years was due to expenses of some $36 million in 1998 and $42 million in 1997 incurred in renewing and updating information technology systems. These latter expenses are expected to decline in 1999.

Research and development expenses were $70 million in 1998, little changed from 1997 and 1996. Alcan's R & D activities are closely aligned with the needs of its core businesses, principally, raw materials, smelting and rolling. The Company is continuing to maintain a strong program for the development of sheet applications and technology for the automotive industry and is working closely with a number of automotive companies in this regard. In addition, opportunities for process optimization to improve EVA are continuing to be explored and implemented in all technology streams.

Other expenses were $219 million compared to $54 million in 1997 and $88 million in 1996. The 1998 increase results from the write-down by $143 million before taxes of the Aughinish alumina refinery in anticipation of its sale, and from costs associated with the Company's Year 2000 software remediation program.

Interest Costs

(millions of US$)	**1998**	1997	1996
Interest expense	92	101	125
Interest capitalized	15	2	—
Total interest costs	107	103	125
Effective average interest rate	6.3%	6.9%	7.3%

Total interest rose slightly in 1998 as borrowings increased, with $15 million being capitalized relating to the Pindamonhangaba (Pinda) and Alma projects in Brazil and Quebec, respectively. From its peak of $267 million in 1992, the Company's interest costs have now fallen by $160 million or 60%. This reflects the debt reduction over that period as well as the benefit of lower interest rates. The pre-tax interest expense coverage ratio was 6.3 times in 1998 compared to 7.4 times in 1997 and 5.6 times in 1996.

Income Taxes

Income taxes of $210 million for 1998 represent an effective rate of 32%, similar to 1997, compared to a composite statutory rate of 40.4%. The difference in the rates in 1998 is due primarily to investment and other allowances, reduced rate or tax-exempt items and the impact of the accounting change related to the currency revaluation of deferred income taxes, partially offset by other exchange translation items.

Equity Companies

Alcan's share of losses of equity-accounted companies in 1998 was $48 million compared to $33 million in 1997 and $10 million in 1996. Business conditions in Japan continued to deteriorate and Alcan's Japanese affiliate, NLM, recorded further operating and restructuring losses. In the third quarter, Alcan increased its ownership in Indian Aluminium Company, Limited (Indal) from 34.6% to 54.6% and accordingly that company is now consolidated as a subsidiary. During the fourth quarter, the Company reduced its ownership in NLM from 45.6% to 11.2% and the investment in NLM is now treated as a portfolio investment.

Product Sector Review

The following information is reported by major product sector, viewing each sector on a stand-alone basis. Transactions between sectors are conducted on an arm's-length basis and reflect market prices. Thus, profit on all alumina produced by the Company, whether sold to third-parties or used in the Company's smelters, is included in the alumina and chemicals sector. Similarly, income from primary metal operations includes profit on metal produced by the Company, whether sold to third-parties or used in the Company's fabricating operations. Income from the fabricated products sector represents only the fabricating profit from rolled products and downstream businesses. Additional product sector information is presented in note 23 to the financial statements.

Alumina and Chemicals Operations

(millions of US$)	**1998**	1997	1996
Sales and operating revenues			
Third parties	**509**	536	529
Intersector	**516**	520	507
Operating income	**113**	118	84
Shipments – third-parties *(kt)*			
Smelter-grade alumina	**1,641**	1,679	1,585
Alumina chemicals	**433**	399	387
Alumina hydrate production *(kt)*	**5,013**	4,727	4,536

Profits from this sector are little changed from 1997 and ahead of 1996. Alumina prices decreased on average by 14% in 1998, reflecting the decline in metal prices. Alcan reduced its alumina production costs per tonne by 8% compared to 1997. This was the result of continued improvements to productivity and efficiencies in conjunction with the Company's Full Business Potential program. Production costs also benefited from lower market prices for oil and caustic soda.

Bauxite

Through subsidiaries, joint ventures and related companies, Alcan has approximately 400 Mt of demonstrated bauxite reserves, which is more than sufficient to meet its needs for the next 30 years. The Company also has access to additional resources to meet its needs beyond this period.

Having reached agreement with Comalco Limited in February 1998 with regard to integrated mining of Alcan's Ely bauxite deposit with Comalco reserves in Australia, progress was made during 1998 to define the mining plan for these resources. From the beginning of 2000, Alcan's bauxite costs in Australia will benefit significantly from the economies of scale resulting from this agreement.

In March 1998, Alcan increased its equity position in the Ghana Bauxite Company from 45% to 80%, and is pursuing an initiative to expand the mining capacity of that company.

Alumina

Alumina hydrate production reached 5.0 Mt in 1998, a 4% increase over 1997 on a comparable basis. For the second consecutive year, hydrate production was the highest level ever for the Company. Total third-party sales were unchanged at 2,074 kt.

In May 1998, Alcan acquired a 20% interest in the proposed Utkal alumina project in Orissa, India, a further 20% of which is held by Alcan's 54.6%-owned subsidiary, Indal. The project consists of a one-million-tonne integrated alumina plant and bauxite mine, with the opportunity to further expand production capacity. This project has the potential to be the lowest cost alumina plant in the world. The detailed feasibility study, most of the environmental clearances, licenses and land acquisitions have been completed. In February 1999, Alcan increased its direct interest in this project to 35%. The Utkal shareholders' decision regarding commencement of construction is expected to be made in late 1999 or early 2000.

In December 1998, Alcan announced a $105-million modernization program at its alumina plant in Jonquière, Quebec. This project will be completed over a four-to-five year period, in conjunction with a major reorganization and substantial reduction in employment levels, in order to significantly reduce the facility's alumina production cost, as well as improve environmental, health and safety conditions.

In January 1999, Alcan reached agreement in principle with Glencore Limited for the sale of the Aughinish alumina refinery in Ireland. In anticipation of this sale, the book value of this asset has been written down to the expected sale value resulting in a charge of $120 million after tax. The sale is expected to be completed by the end of the first quarter of 1999 and will make a further contribution towards the reduction of the Company's overall alumina costs.

An agreement with Comalco Limited will achieve economies of scale in mining the Ely bauxite reserves in Australia, adding substantial value to Alcan's strategy for raw material supply.

Chemicals

Operating results in 1998 were similar to prior year results, as continued progress made on shifting Alcan's position to specialty alumina chemicals was offset by reduced profit margins in Europe. In December 1998, Alcan concluded the sale of Handy Chemicals Limited located in Candiac, Quebec, in accordance with its strategy to focus on specialty alumina chemicals.

Primary Metal Operations

(millions of US$)	1998	1997	1996
Sales and operating revenues			
Third parties	1,304	1,487	1,321
Intersector	1,394	1,486	1,628
Operating income	346	606	523
Shipments *(kt)*			
Primary aluminum			
Third parties	648	661	592
Intersector	904	867	1,017
Primary production *(kt)*	1,481	1,429	1,407

Operating profits from this sector declined some 43%, to reflect the lower average ingot prices prevailing in 1998 mitigated by lower alumina costs and the benefit of increased

production levels. Profits from this sector arise not only from third-party sales but also from the sale of metal at market prices to the Company's own fabricating operations. Intersector shipments increased in 1998 reflecting higher demand from Alcan's North American fabricating operations.

Third-party sales of primary ingot are nearly all in added-value forms such as extrusion billet and foundry ingot. Reduced Asian demand for ingot products was offset by a continued high level of demand from the North American market. Billet sales and profitability improved with Alcan's strong market position supported by casting facilities at four smelters. Sales of foundry ingot were maintained despite the 1998 ice storm affecting output in Quebec and a strike at General Motors affecting demand. Increased foundry ingot casting capacity has been installed at the Sebree smelter in the U.S. to support Alcan's automotive products strategy. The average realized price on third-party sales of primary ingot was $1,618/t compared to $1,803/t in 1997 and $1,721/t in 1996.

Alcan's smelting and power strategy moves into a new phase with the construction of the US$1.6-billion, 375,000-tonne capacity smelter in Alma, Quebec, scheduled for start-up in late 2000.

Alcan's average cost of production of primary aluminum (mainly in the form of sheet ingot and extrusion billet), including alumina at market prices, was $1,327/t compared to $1,352/t in 1997 and $1,328/t in 1996. The reduction in 1998 was due to lower alumina costs and the benefits to unit costs of increased output.

Primary Production

Primary metal production again increased in 1998 with improved output from most smelters offset by the loss of some 7 kt of production at a Canadian smelter due to the loss of power following an ice storm in January 1998. Alcan continues to have approximately 134 kt/y of production capacity temporarily idled, representing 8% of its capacity. This capacity will be restarted only when warranted by industry conditions. In addition, some 70 kt of capacity in India are idle due to non-availability of power.

In February 1998, the Company announced its decision to proceed with construction of a new 375-kt/y smelter at Alma, Quebec. Construction is proceeding according to plan and the first metal will be produced in late 2000. In conjunction with this expansion, the existing 75-kt/y smelter at Isle-Maligne, Quebec will be closed. The Alma smelter will employ state-of-the-art technology and will have among the lowest operating costs of new smelter projects in the world today.

Feasibility studies are under way into potential smelter projects in British Columbia and Kentucky as well as a potential joint-venture project in Shanxi Province, China. These studies represent opportunities to grow Alcan's low-cost smelting capacity and their completion will allow the Company to move quickly when market conditions are appropriate.

In the U.K., the refurbishment of the idle potline at Lynemouth is complete and the line is ready to restart when market conditions allow. In anticipation of the eventual closure of the Kinlochleven smelter, planning permission has been sought to upgrade the power line from the Kinlochleven power system to the Lochaber smelter.

Fabricated Products Operations

(millions of US$)	**1998**	1997	1996
Sales and operating revenues	**5,963**	5,737	5,744
Operating income	**310**	280	124
Shipments *(kt)*	**1,823**	1,694	1,539
Fabrication of customer-owned metal	**289**	276	258
Total volume	**2,112**	1,970	1,797

Alcan's fabricated products volume, including fabrication of customer-owned metal, grew 7% in 1998 to a record level of 2.1 Mt, following 10% growth in 1997. Adjusted for acquisitions and disposals, fabricated products volume has grown 60% in the five years since 1993. This performance reflects the achievement of increased market share in the Company's chosen market segments.

Rolled Products

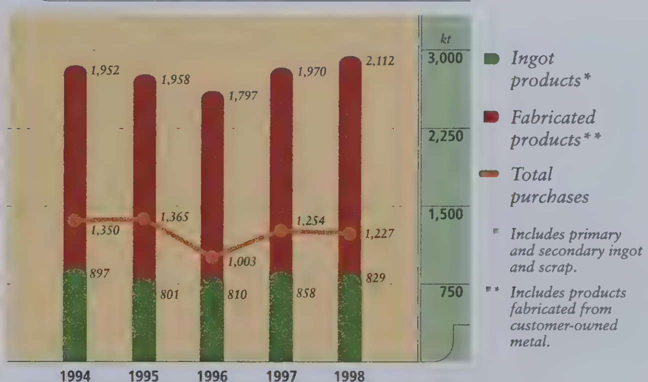
	1998	1997	1996
Shipments *(kt)*	**1,604**	1,476	1,304
Fabrication of customer-owned metal	**289**	276	258
Total volume	**1,893**	1,752	1,562
Average price realizations *(US$/t)*	**2,599**	2,637	2,797

Alcan continues to consolidate its position of leadership in rolled products markets in North and South America and Europe following capacity expansions and modernization in recent years.

The decline in the average price realized on shipments of rolled products was much less than the decline in the underlying metal price due to the time-lag in metal prices flowing through to fabricated products prices as well as to the impact of currency translation. Realizations on sales denominated in European currencies declined in dollar terms in 1997 but increased in 1998 as those currencies recovered against the dollar.

North American industry aluminum sheet demand grew an estimated 1.5% in 1998 but Alcan achieved growth of 13%, recording market share gains in all major segments and increased exports. Industry can sheet growth was in line with overall sheet demand growth at an estimated 1.5% increase in 1998 driven by an increase in beverage can shipments of about 2.2% to a level of 103 billion cans in the U.S. Alcan continued to increase its share of this market with shipments up 11.6%. The Company made further inroads to the distributor market with shipments up 12% in a relatively flat market. In light gauge products, volume was up 10%, over twice the market growth, led by gains in transportation, packaging and construction.

Aluminum Shipments and Purchases



The increased requirements for ingot by fabricated products operations was met by Alcan's own primary and recycling facilities resulting in reduced metal purchases.

Following growth of 7% in 1997, the rolled products market in Western Europe rose by an estimated 1.5% in 1998. However, market conditions weakened as the year progressed with the rolled products market contracting at a rate of 2% during the second half-year, after growth of 5% in the first six months. Having achieved sales growth of 16% in 1997, Alcan consolidated its position with shipments almost unchanged from the previous year, but with improved margins and with a higher added-value product mix.

In South America, rolled products growth of 9% slowed somewhat from previous years and was mixed, with can sheet growing an estimated 16% but declines for consumer durable goods, transportation and machinery markets due to very high real interest rates in Brazil. A large proportion of Alcan's shipments is can sheet and the Pinda mill is the only rolling mill in the region with can sheet production capability. This plant is being expanded from 100 kt/y to 280 kt/y with the new capacity scheduled to start coming on stream late in 1999 to continue supporting the expanding South American can sheet market.

Alcan's patented alloys and proprietary technologies are key contributors to the growing acceptance of aluminum sheet in automobiles. Working in close partnership with the customer, an Alcan laboratory technologist at Kingston, Ontario, simulates a test for the uniformity of temperature distribution on an aluminum hood.

Automotive

The year 1998 was again one of substantial progress for the automotive group, with significant commercial breakthroughs advancing Alcan's leadership in the application of aluminum sheet and metal matrix composites. During the year, Alcan secured new business with both General Motors and Ford for the increased use of aluminum exterior body panels (closures) on cars and light trucks. Over the next two years, Alcan will begin to supply multiple major new closure panel applications to the two manufacturers, making Alcan the leading supplier of aluminum closures to both companies. Volkswagen selected *DURALCAN* brake drums for production on its new lightweight, 3.0 liter/100 km Lupo. The Lupo, weighing in at just 800 kg, capitalizes on the lightweight benefits of aluminum throughout the vehicle. Production of this vehicle is now under way. In addition to these successes, significant progress was made toward the prospect of a high-volume aluminum-intensive vehicle (AIV).

Alcan Global Automotive Products, a new organization, was created in 1998 to extend Alcan's business development approach into Europe and other regions to ensure the success of critical customer programs, while capturing the value of these business opportunities for Alcan. The strategic alliance signed with General Motors in November, along with continued progress with Ford toward developing lighter, more efficient vehicles, provides the underpinning for long-term sustainable market growth.

Alcan's reputation as a reliable, quality supplier was also recognized through the achievement of both the QS-9000 and Ford Q1 certifications at the Company's three North American plants involved in the production of automotive sheet.

Other Fabricated Products

	1998	1997	1996
Shipments *(kt)*	219	218	235
Average price realizations *(US$/t)*	5,292	5,445	5,946

Sales of other fabricated products were flat in 1998 after having declined over the previous five years as a result of the divestment of non-strategic downstream businesses, most of which was completed by 1996. The slight decline in realizations in 1998 largely reflects the underlying metal price.

In North America, shipments of Alcan Cable products increased in 1998, continuing the positive trend of the past several years. Building wire demand continued to grow and market demand for service cable and transmission cable was stable in 1998, supporting the sales volume needed to maintain continuing excellent profit performance. Alcan Cable employees in Canada and the U.S. extended special efforts in early 1998 in response to emergency demand for cable caused by a severe ice storm that blanketed eastern Canada and the northeastern United States in January. Most dramatic was Alcan Cable's rapid production and delivery of a special high strength alloy conductor cable that electric utility Hydro-Québec desperately needed to replace steel-reinforced high-voltage lines brought down by the storm.

In France, conditions in the building systems market improved, and the overseas business of Alcan France generally performed well. However, sales to Southeast Asia were affected by the much weaker economies in that region. In Germany, Alcan reached agreement to sell the piston manufacturing business during the first quarter of 1999. In Brazil, the flexible packaging business suffered weak market demand.

Recycling Activities

Alcan's aluminum can recycling in North America increased by 8.2% in 1998 to a new record, 20.1 billion cans. This represents more than 30% of all the aluminum beverage cans recycled by Americans in the year. In Canada, Alcan collected approximately 2.1 billion cans in Ontario, Quebec and British Columbia during 1998. The economic value of the cans Alcan recycled during the year in North America totalled nearly $325 million.

Alcan also operates a used beverage can (UBC) recycling plant in the U.K. and, in early 1998, commissioned a UBC recycling facility with an ultimate capacity of 80 kt/y in Brazil, the first of its kind in South America, supporting growth of the beverage can market in those regions.

Alcan's leadership in automotive sheet and metal matrix composites is evidenced by a strategic alliance with General Motors.

In addition to its UBC recycling facilities, Alcan recycles other forms of aluminum scrap at four facilities in India, Italy, Thailand and the U.K. with a total capacity of 181 kt/y. Third-party sales totalled 96 kt compared to 82 kt in 1997 and 119 kt in 1996. Late in 1996, the Company sold its facility in Guelph, Ontario, and, in the first quarter of 1999, sold its plant in Shelbyville, Tennessee. These steps reflect the decision to concentrate secondary production on supplying sheet ingot to the Company's own fabricating operations and supporting the fabricated products market with a recycling infrastructure.

Geographic Review

The economic downturn in Japan and the rest of Asia felt in late 1997 accelerated into 1998 and, because of the impact on global demand and prices, adversely affected results in all regions.

Net income data included in this Geographic Review relate to Alcan's operations in each region, whereas the shipment data are classified according to third-party customer location.

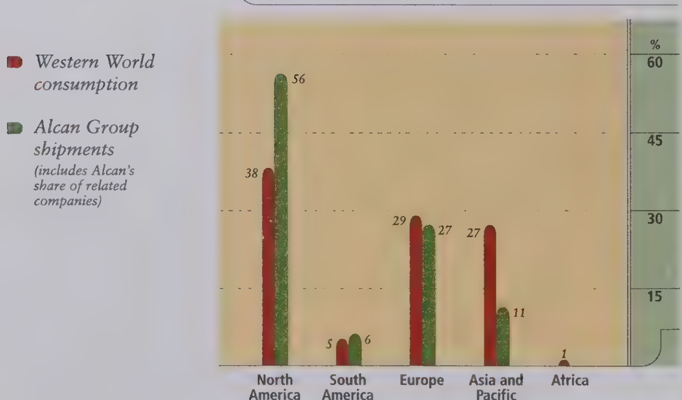
Canada

(millions of US$)	1998	1997	1996
Net income*	133	245	175
Net income excluding special items*	103	219	188
Shipments (kt)			
Ingot products	110	101	120
Fabricated products	115	110	120

* Net income in 1997 is before extraordinary gain. Special items include: 1998 currency revaluation of deferred income taxes and gain on sale of a business, 1997 prior year tax adjustments, 1996 rationalization expenses and loss on early retirement of debt.

Earnings from Canadian operations, principally primary metal and alumina, declined in 1998 due to lower aluminum ingot prices more than reversing the improvement in 1997.

1998 Aluminum Shipments by Region



Alcan is one of the most international aluminum companies serving customers in all major regions of the world.

The Canadian economy experienced slower growth with the impact of reduced exports to Asia. Alcan's shipments to customers in Canada increased some 7% to 225 kt.

The 375-kt/y Alma smelter project in Quebec received its go-ahead early in 1998, and construction is underway. In the fourth quarter, Handy Chemicals was sold in accordance with the Company's strategy of concentrating its chemicals activities on specialty alumina chemicals.

United States

(millions of US$)	1998	1997	1996
Net income	144	136	70
Net income excluding special items*	144	136	72
Shipments (kt)**			
Ingot products	388	379	380
Fabricated products	1,016	905	874

* Special items comprise loss on sale of business and tax write-backs in 1996.
** Includes fabrication of customer-owned metal.

The increase in U.S. net income reflects continued improvements in profitability of the fabricated products business partly offset, in 1998, by reduced earnings from the U.S. smelter operations due to lower metal prices.

The U.S. economy remained robust but with some slowing of the growth rate towards the end of the year. Aluminum consumption rose 2.8% after a high, 6.7%, growth rate in 1997. Strong housing activity and transportation markets as well as continuing growth in the can market were the main factors.

Despite the slowing in the U.S. growth rate, Alcan's fabricated products operations experienced an excellent year and are achieving good order levels going into 1999.

South America

(millions of US$)	1998	1997	1996
Net income	13	27	42
Net income excluding special items*	13	17	29
Shipments (kt)			
Ingot products	26	27	21
Fabricated products	162	146	153

* *Special items include 1997 and 1996 gain on sale of businesses.*

Operating results in 1998 were affected by the impact of lower metal prices on raw materials and smelting operations. The decline in 1997 was largely due to the divestment of non-core downstream operations.

In Brazil, the imposition of very high interest rates in defence of the currency pushed the economy into recession in the fourth quarter. Cars, trucks and consumer durable goods production declined sharply. Despite weakness in these sectors, aluminum consumption grew some 5% with increased demand from the electrical distribution and beverage can markets. The outlook for 1999 is uncertain after the devaluation of the Real in January 1999. It is expected that the first quarter will be difficult with a substantial reduction in GDP.

The Pinda rolling mill expansion is proceeding well — on time, on budget and with over 5 million construction hours worked without a lost-time accident. The expansion is scheduled to start coming on stream in the second half of 1999.

Europe

Overall GDP growth in the European Union (EU) 15 countries continued at just under 3% in 1998, a similar rate to the previous year. The economies of Germany and France experienced slightly higher growth, whereas Italy's growth was unchanged, and the U.K. economy began to slow down.

Operating profits and net income from the European fabricating businesses showed a significant increase in 1998, partly due to the effect of the improved conversion margins, but mostly due to the benefits of the cost reduction program underway across Europe. Employee numbers in Europe were reduced by some 550, or 5%, during the year and restructuring charges of $19 million before tax were made as Alcan Europe took steps to move towards its full business potential. In 1998, however, this improvement was offset by reduced earnings from alumina and primary metal operations.

Germany

(millions of US$)	1998	1997	1996
Net income	7	—	(25)
Net income excluding special items*	10	—	(20)
Shipments (kt)**			
Ingot products	19	10	8
Fabricated products	180	183	151

* *Special items include 1998 and 1996 rationalization costs.*
** *Includes fabrication of customer-owned metal.*

Alcan's fabricating operations in Germany turned profitable in 1998 but continued to be EVA-negative. Further improvements are expected in 1999, based on actions taken in 1998 and to be taken in 1999.

United Kingdom

(millions of US$)	**1998**	1997	1996
Net income	2	22	51
Net income excluding special items*	8	22	49
Shipments *(kt)***			
Ingot products	25	25	16
Fabricated products	151	152	141

** Special items include 1998 rationalization costs, 1996 tax write-backs.*
*** Includes fabrication of customer-owned metal.*

Fabricating operations in the U.K. were affected by the competitive impact of the strength of the pound sterling against continental currencies and by the slowing U.K. economy. In addition, primary metal operations suffered a decline in profitability due to lower metal prices.

Other Europe

(millions of US$)	**1998**	1997	1996
Net income	(98)	33	(5)
Net income excluding special items*	25	33	(3)
Shipments *(kt)***			
Ingot products	64	71	65
Fabricated products	366	391	338

** Special items include 1998 write-down of assets and rationalization costs, 1996 rationalization costs.*
*** Includes fabrication of customer-owned metal.*

Indian Aluminium Company, Limited, now a fully consolidated subsidiary, manufactures a range of products such as the high-value rolled products at the Belur sheet mill in West Bengal, India, all the way across the spectrum to specialty alumina chemicals.

Improved fabricated products earnings were offset by the impact of lower alumina prices on the raw materials operations. Included in the reported earnings for the year is a $120 million after-tax write-down of the Aughinish alumina refinery in anticipation of its sale early in 1999.

Asia and Pacific

(millions of US$)	**1998**	1997	1996
Net income	117	(1)	13
Net income excluding special items*	8	29	25
Shipments *(kt)*			
Ingot products	196	245	199
Fabricated products	119	76	13

** Special items include: 1998 gain on sale of NLM shares, 1998 and 1997 construction contract losses and rationalization expenses and 1996 rationalization expenses.*

Income, excluding special items, from this region deteriorated further in 1998 as the weak Japanese economy resulted in increased operating losses from the Company's affiliate, NLM. In the fourth quarter, in line with the strategy of concentrating on upstream and large-scale fabricating operations, Alcan sold shares in NLM reducing its holding to 11.2% and realizing net cash proceeds of $193 million and an after-tax gain of $140 million. This company is now accounted for as a portfolio investment and is no longer equity-accounted.

In July 1998, Alcan acquired a further 20% of the shares of Indal for $70 million bringing its total stake to 54.6%. Accordingly, Indal has been consolidated as a subsidiary from that date. Despite slower economic growth in India, Indal improved its profitability by some 50%.

The economic crisis, which gripped Southeast Asia in the latter half of 1997, worsened during 1998, plunging most countries in the region into their first recession in over a decade. Alcan's exports of ingot products to the region declined by 20%. For fabricated products, the construction and automotive markets, which are important to Alcan's businesses, were especially hard hit, leading to a sharp decline in shipments into these markets.

Alcan's businesses in Thailand and Malaysia responded with aggressive cost reduction and productivity improvement, rigorous management of working capital and the development of export opportunities. While profitability declined, cash generation was positive and substantially higher than in 1997. With business conditions expected to remain difficult, all companies will be accelerating their efforts to strengthen their competitive position in the year ahead.

In Australia, earnings from raw materials operations declined due to lower alumina prices.

Other Areas

(millions of US$)	1998	1997	1996
Net income	39	35	31
Net income excluding special items*	41	35	35
Shipments *(kt)*			
Ingot products	—	—	1
Fabricated products	3	7	7

** Special items include 1998 loss on sale of business, 1996 rationalization expenses.*

Activities in other areas include raw materials operations in Jamaica, Guinea and Ghana, and trading, shipping and insurance activities in Bermuda. Alcan also sells its products in other parts of the world such as the Middle East and Africa.

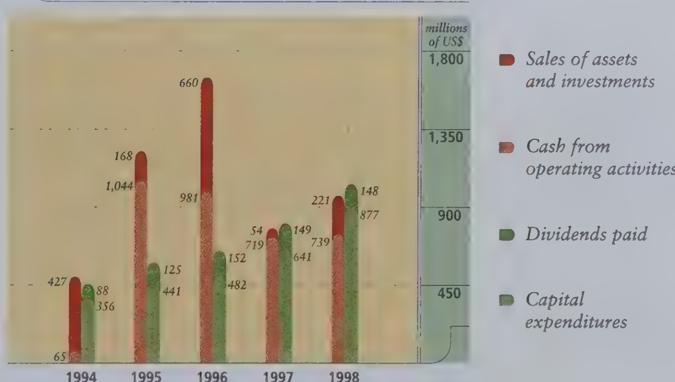
Liquidity and Capital Resources

Operating Activities

Cash generation in 1998 was close to 1997, despite the lower net income. Calculated by taking net income for the year and adding back depreciation and deferred income taxes, cash generation was $890 million compared to $913 million in 1997 and $856 million in 1996.

Net operating working capital requirements increased by $106 million in 1998 and by $125 million in 1997 due in part to higher fabricated products sales volumes. Inventories increased at the end of 1998 reflecting lower than expected shipments at the end of the year in Europe and realignment of sheet ingot work-in-progress in North America.

Cash Flows



The capital investment program was largely funded by cash generated from operations and business disposals with a small increase in debt levels in 1998.

With can sheet consumption in South America growing by about 20% per year since 1996, Alcan's new recycling facility at Pindamonhangaba, Brazil, completes the circle of domestic production, consumption and recycling of aluminum cans.

Investment Activities

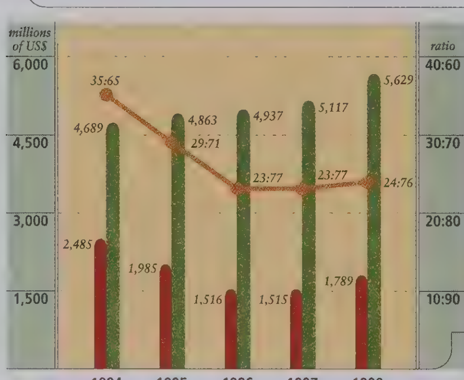
Capital investment in the year was $877 million, an increase from the previous two years, which were $641 million and $482 million respectively. On an ongoing basis approximately $450 million is required annually to maintain the integrity and competitiveness of the Company's assets. Additional investment during 1998 principally comprised the expansion of rolling capacity in Brazil, initial expenditure on the Alma smelter project in Quebec and the acquisition of a controlling interest in Indal, India.

Total Borrowings and Equity
(at year-end)

Total borrowings

Equity
(includes minority interests and preference shares)

Ratio of total borrowings to equity



Alcan's borrowings-to-equity ratio remains at a healthy level. Adjusted for surplus cash, the ratio becomes 18:82.

In 1999, total investment is anticipated to be approximately $1.2 billion including, in addition to projects to maintain existing assets, the Alma smelter construction and the conclusion of the Pinda rolling mill expansion in Brazil.

Disposal proceeds from the sale of non-strategic businesses were $221 million in 1998, compared to $54 million in 1997 and $660 million in 1996.

Disposal of assets in 1998 comprised the sale of shares in NLM, Japan, and the sale of Handy Chemicals in Quebec. In addition, the divestment of a recycling facility in Shelbyville, Tennessee, was completed in the first quarter of 1999, and the sale of the Aughinish alumina refinery in Ireland and a piston manufacturing business in Nürnberg, Germany, are under way.

Financing Activities

Total borrowings at the end of 1998 were $1.8 billion, which was $274 million above the 1997 level. Alcan's debt-to-equity ratio rose slightly to 24:76 compared to 23:77 at the end of 1997, which was the lowest level in decades. Net of surplus cash, the 1998 ratio was 18:82.

The quarterly common share dividend remained at 15 cents per share in 1998. Total dividends paid to common shareholders were $136 million, the same as in 1996 and 1997. Dividends to preference shareholders were $10 million in both 1998 and 1997 compared to $16 million in 1996.

In March of 1998, Alcan redeemed $43 million of its Series D preference shares. These shares were relatively high cost financing in the current interest rate environment. In addition, in September, the Company took advantage of historically low long-term interest rates to issue debentures totalling $300 million — $200 million 6.25% debentures due 2008 and $100 million 7.25% debentures due 2028.

In September 1998, Alcan announced a common share repurchase program for up to 22.7 million common shares over a 12-month period. During the fourth quarter, Alcan purchased 1.73 million common shares. Purchases under this program may be made until September 28, 1999, at the Company's discretion.

Cash reserves totalled $615 million at the end of 1998 compared to $608 million and $546 million at the ends of 1997 and 1996 respectively. The Company continues to have a $1-billion global, multi-year and multi-currency credit facility with a syndicate of major international banks. At December 31, 1998, no funds had been borrowed under this facility and the full amount continues to be available. The Company's investment grade rating also provides Alcan with access to global capital markets through the issuance of debt and equity instruments.

The Company expects that cash generated from operations, combined with the above resources, will be more than sufficient to meet the cash requirements of operations, planned capital expenditures and dividends. In addition, ready access to capital markets should provide adequate liquidity to meet unforeseen events.

Environmental Matters

Alcan is committed to the continued environmental improvement of its operations and products. The Company has devoted, and will continue to devote, significant resources to control air and water pollutants, to dispose of wastes and to remediate sites of past waste disposal. Alcan estimates that annual environment-related spending, both capital and expense, will average about $190 million per year over the next several years and is not expected to have a material effect on its competitive position. While the Company does not anticipate a material increase in the projected level of such expenditures, there is always a possibility that such increases may occur in the future in view of the uncertainties associated with environmental exposures, including new information concerning sites with identified environmental liabilities and changes in laws and regulations and their application.

Included in total operating costs and expenses for the year are amounts for safeguarding the environment and improving working conditions in plants. In 1998, such expenses totalled $91 million. This amount was largely for costs associated with reducing air emissions and mitigating the impact of waste and by-products. In 1996 and 1997, these expenses totalled $96 million and $88 million, respectively.

Included in capital spending in 1998 was $71 million for environment-related projects. Such spending was largely on equipment designed to reduce or contain air emissions generated by Alcan plants. Spending in 1996 and 1997 was $60 million and $84 million, respectively.

Risks and Uncertainties

Risk Management

As a multinational company engaged in a commodity-related business, Alcan's financial performance is heavily influenced by fluctuations in metal prices and exchange rates. In order to reduce the associated risks, the Company uses a variety of financial instruments and commodity contracts. All risk management activities are governed by clearly defined policies and management controls. Transactions in financial instruments for which there is no underlying exposure are prohibited.

The decision whether and when to commence a hedge, along with the duration of the hedge, can vary from period to period depending on market conditions and the relative costs of various hedging instruments. The duration of a hedge is always linked to the timing of the underlying transaction, with the connection between the two being constantly monitored.

Foreign Currency Exchange

Exchange rate movements, particularly between the Canadian dollar and U.S. dollar, have an important impact on Alcan's results. For example, on an annual basis, each US$0.01 permanent change in the value of the Canadian dollar has an after-tax impact of approximately $11 million on the Company's long-term profitability. Alcan benefits from a weakening in the Canadian dollar, but, conversely, is disadvantaged if it strengthens. In order to reduce the short-term volatility in costs arising from movements in exchange rates, Alcan hedges a substantial portion of its Canadian dollar exposure through the use of forward exchange contracts and currency options.

For further details, refer to note 17 of the financial statements.

From the beginning of 1998, following a change to the accounting standards of the Canadian Institute of Chartered Accountants on accounting for income taxes, the Company's deferred income tax liability is translated into U.S. dollars at current rates. The resultant exchange gains or losses are included in income. The impact of a US$0.01 movement in the value of the Canadian dollar on deferred income taxes is approximately $6 million. During 1998, a gain of $31 million was recorded in this regard.

Aluminum Prices

Depending on market conditions and logistical considerations, Alcan may sell primary aluminum to third parties and may purchase primary aluminum and secondary aluminum, including scrap, on the open market to meet the requirements of its fabricating businesses. In addition, depending on pricing arrangements with fabricated products customers, Alcan may hedge some of its purchased metal supply in support of those sales.

Through the use of forward purchase and sale contracts and options, Alcan seeks to limit the impact of lower metal prices, while retaining the ability to benefit from higher prices. The Company may also, through a combination of hedging instruments, establish a range of sales prices for a certain portion of its future revenues.

Alcan estimates that on an annual basis, each $100 per tonne change in the price of aluminum has an after-tax impact of approximately $100 million on the Company's long-term profitability.

For further details, refer to note 17 of the financial statements.

The Year 2000 Issue

Alcan is addressing the Year 2000 issue through a formal program (the Project) designed with the assistance of outside consultants. Products made and sold by Alcan do not contain date-sensitive software or electronic components. The Project is therefore focused on evaluation and remediation of systems hardware and related software used in business applications, process controls and instrumentation used in the manufacturing process, and on risks associated with suppliers and other third-parties not being Year 2000 compliant.

Remediation of all critical systems was approximately 90% complete at the target date of December 31, 1998. Although minor slippage has occurred, Alcan expects to complete remediation of the remaining critical systems in a timely manner and this is not expected to have a material adverse effect on Alcan's Year 2000 preparedness. Remediation means an item has been repaired or replaced and has been unit tested or otherwise demonstrated to be compliant.

Other key project phases are generally on target with Alcan's milestone dates. Testing is expected to be substantially complete by the end of the second quarter of 1999. All critical systems are being evaluated for full integration testing; however, integration testing will not necessarily be undertaken for all systems.

Alcan is dependent upon a number of third parties including utilities and raw material suppliers. Alternative suppliers are not available in all cases. Alcan operates or controls, through direct ownership or joint ventures, the supply of a majority of its requirements for bauxite and alumina. This will assist Alcan in assessing and managing risk with respect to these key raw materials. Additionally, Alcan generates its own power for its core North American smelter facilities which will enable Alcan to deal directly with those power supply risks.

Contingency planning and business continuity planning will receive increased attention over the next several months. Contingency planning includes examining options for minimizing impact where third-party supplies are interrupted, the availability of alternative electrical power from third-party sources and examining how dual source energy options, available at several key fabricating facilities, can best be utilized. As systems testing and integration testing advances, Alcan will evaluate most reasonably likely worst case scenarios. These will also become clearer in relation to third-party dependencies as the position of key suppliers becomes better known. Detailed business continuity plans will then be developed in light of the results of these reviews.

Alcan believes that the Project continues to reduce significantly the possibility of material interruptions in normal operations. Third-party failures or unexpected impediments to timely completion of Year 2000 remediation could result in business interruptions or delays that could have a material adverse effect on Alcan's business and financial condition.

Costs of repair and replacement of systems at Alcan facilities are expensed as incurred and are estimated at $50 million. Costs to the end of 1998 were $23 million. Any additional costs for testing, implementation and contingency planning are not expected to have a material adverse effect on Alcan's liquidity, results or financial condition.

Aboriginal Issues

In April 1998, the 100-member Cheslatta Nation Indian Band filed suit against Alcan, Canada and British Columbia (B.C.) seeking a declaration that they be entitled to the exclusive occupancy or possession of certain claimed lands, to damages and to other relief, relying on the decision of the Supreme Court of Canada in the *Delgamuukw* case. Alcan obtained its title to certain land in the claimed territory under valid grants from the Government of Canada upon due payment. Alcan filed its statement of defence in October 1998. The day-to-day operations of Alcan's facilities will not be impeded. Alcan believes that this claim is without merit and will not succeed in court.

In March 1998, the Haisla Nation wrote to Alcan, Canada and B.C. asserting that Alcan's lands in Kitimat and Kemano are subject to their aboriginal title, also apparently relying on the *Delgamuukw* case.

Cautionary Statement

Statements in this report that describe the Company's objectives, projections, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable securities laws and regulations. The Company cautions that such statements involve risk and uncertainty and that actual results could differ materially from those expressed or implied. Important factors that could cause differences include global aluminum supply and demand conditions, aluminum ingot prices and other raw materials' costs or availability, cyclical demand and pricing in the Company's principal markets, changes in government regulations, economic developments within the countries in which the Company conducts business, and other factors relating to the Company's operations, such as litigation, labour negotiations and fiscal regimes.

Responsibility for the Annual Report

Alcan's management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the Annual Report. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include, where appropriate, estimates based on the best judgement of management. They conform in all material respects with accounting principles established by the International Accounting Standards Committee. A reconciliation with accounting principles generally accepted in the United States is also presented. Financial and operating data elsewhere in the Annual Report are consistent with that contained in the accompanying financial statements.

Alcan's policy is to maintain systems of internal accounting and administrative controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that Company assets are adequately accounted for and safeguarded. The Board of Directors oversees the Company's systems of internal accounting and administrative controls through its Audit Committee, which is comprised of directors who are not employees. The Audit Committee meets regularly with representatives of the shareholders' independent auditors and management, including internal audit staff, to satisfy themselves that Alcan's policy is being followed.

The Audit Committee has recommended the appointment of PricewaterhouseCoopers LLP as the independent auditors, subject to approval by the shareholders.

The financial statements have been reviewed by the Audit Committee and, together with the other required information in this Annual Report, approved by the Board of Directors. In addition, the financial statements have been audited by PricewaterhouseCoopers LLP, whose report is provided below.

Jacques Bougie — S. Thadhani

Jacques Bougie, Chief Executive Officer — Suresh Thadhani, Chief Financial Officer

February 11, 1999

OECD Guidelines

The Organization for Economic Cooperation and Development (OECD), which consists of 24 industrialized countries including Canada, has established guidelines setting out an acceptable framework of reciprocal rights and responsibilities between multinational enterprises and host governments.

Alcan supports and complies with the OECD guidelines, and the Company's own statement, *Alcan, Its Purpose, Objectives and Policies,* is consistent with them. This statement, first published in 1978, has been distributed in 11 languages to Alcan employees worldwide to strengthen the awareness of the basic principles and policies which have guided the conduct of Alcan's business over the years.

The statement of Alcan's purpose, objectives and policies, the Company's annual information form and its 10-K report are all available to shareholders on request. The latter two documents contain a complete list of significant Alcan Group companies worldwide.

Auditors' Report

To the Shareholders of Alcan Aluminium Limited

We have audited the consolidated balance sheet of Alcan Aluminium Limited as at December 31, 1998, 1997 and 1996 and the consolidated statements of income, retained earnings and cash flows for each of the years in the three-year period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998, 1997 and 1996 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1998 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants

February 11, 1999
Montreal, Canada

Consolidated Statement of Income

(in millions of US$, except per share amounts)

Year ended December 31	1998	1997	1996
Revenues			
Sales and operating revenues	$7,789	$7,777	$7,614
Other income *(note 10)*	231	88	75
	8,020	7,865	7,689
Costs and expenses			
Cost of sales and operating expenses	6,076	6,005	5,919
Depreciation *(note 2)*	462	436	431
Selling, administrative and general expenses	448	444	422
Research and development expenses	70	72	71
Interest	92	101	125
Other expenses *(note 9)*	219	54	88
	7,367	7,112	7,056
Income before income taxes and other items	653	753	633
Income taxes *(notes 3 and 6)*	210	248	212
Income before other items	443	505	421
Equity loss *(note 8)*	(48)	(33)	(10)
Minority interests	4	(4)	(1)
Net income before extraordinary item	$ 399	$ 468	$ 410
Extraordinary gain *(note 4)*	—	17	—
Net income	$ 399	$ 485	$ 410
Dividends on preference shares	10	10	16
Net income attributable to common shareholders	$ 389	$ 475	$ 394
Net income per common share before extraordinary item *(note 2)*	$ 1.71	$ 2.02	$ 1.74
Extraordinary gain per common share *(note 4)*	—	0.07	—
Net income per common share *(note 2)*	$ 1.71	$ 2.09	$ 1.74
Dividends per common share	$ 0.60	$ 0.60	$ 0.60

Consolidated Statement of Retained Earnings

(in millions of US$)

Year ended December 31	1998	1997	1996
Retained earnings – beginning of year			
As previously reported	$3,556	$3,217	$2,959
Accounting change *(note 3)*	306	—	—
As restated	3,862	3,217	2,959
Net income	399	485	410
	4,261	3,702	3,369
Amount related to common shares purchased for cancellation	37	—	—
Dividends – Common	136	136	136
– Preference	10	10	16
Retained earnings – end of year *(note 15)*	$4,078	$3,556	$3,217

Consolidated Balance Sheet

(in millions of US$)

December 31	1998	1997	1996
Assets			
Current assets			
Cash and time deposits	$ 615	$ 608	$ 546
Receivables	1,401	1,292	1,262
Inventories			
Aluminum	826	800	736
Raw materials	345	307	325
Other supplies	242	234	244
	1,413	1,341	1,305
	3,429	3,241	3,113
Deferred charges and other assets	517	424	314
Investments *(notes 8 and 10)*	58	251	331
Property, plant and equipment *(note 9)*			
Cost (excluding Construction work in progress)	11,758	11,133	11,122
Construction work in progress	911	582	395
Accumulated depreciation	6,772	6,257	6,047
	5,897	5,458	5,470
Total assets	$ 9,901	$ 9,374	$ 9,228
Liabilities and Shareholders' Equity			
Current liabilities			
Payables	$ 1,104	$ 1,052	$ 1,008
Short-term borrowings	86	238	178
Income and other taxes	28	98	98
Debt maturing within one year *(note 12)*	166	36	19
	1,384	1,424	1,303
Debt not maturing within one year *(notes 12 and 17)*	1,537	1,241	1,319
Deferred credits and other liabilities *(note 11)*	604	623	673
Deferred income taxes *(notes 3 and 6)*	747	969	996
Minority interests *(note 10)*	110	43	73
Shareholders' equity			
Redeemable non-retractable preference shares *(note 13)*	160	203	203
Common shareholders' equity			
Common shares *(note 14)*	1,251	1,251	1,235
Retained earnings *(note 15)*	4,078	3,556	3,217
Deferred translation adjustments *(note 16)*	30	64	209
	5,359	4,871	4,661
	5,519	5,074	4,864
Commitments and contingencies *(notes 18 and 19)*			
Total liabilities and shareholders' equity	$ 9,901	$ 9,374	$ 9,228

in C$ = ~~8269~~ 8511.40

Approved by the Board:

Jacques Bougie, Director

W.R.C. Blundell, Director

5519
<160>
x1.5422 = 8264.6

Consolidated Statement of Cash Flows

(in millions of US$)

Year ended December 31	1998	1997	1996
Operating activities			
Net income	$ 399	$ 485	$ 410
Adjustments to determine cash from operating activities:			
Depreciation	462	436	431
Deferred income taxes	29	(8)	15
Equity loss – net of dividends	53	39	21
Change in operating working capital			
Change in receivables	(109)	(30)	187
Change in inventories	(72)	(37)	185
Change in payables	52	44	(99)
Change in income and other taxes payable	(70)	—	(3)
Changes in operating working capital due to:			
Deferred translation adjustments	46	(93)	(29)
Acquisitions, disposals and consolidations/deconsolidations	47	(9)	(178)
	(106)	(125)	63
Change in deferred charges, other assets, deferred credits and other liabilities – net	(113)	(139)	25
Gain on sales of businesses – net	(156)	(12)	(8)
Impairment in value of property, plant and equipment	143	—	—
Other – net	28	43	24
Cash from operating activities	739	719	981
Financing activities			
New debt	359	22	56
Debt repayments	(57)	(25)	(459)
	302	(3)	(403)
Short-term borrowings – net	(169)	90	(11)
Common shares purchased for cancellation	(46)	—	—
Common shares issued	9	16	16
Redemption of preference shares	(43)	—	(150)
Dividends – Alcan shareholders (including preference)	(146)	(146)	(152)
– Minority interests	(2)	(3)	—
Cash used for financing activities	(95)	(46)	(700)
Investment activities			
Property, plant and equipment	(805)	(641)	(482)
Investments	(72)	—	—
	(877)	(641)	(482)
Net proceeds from disposal of businesses, investments and other assets	221	54	660
Cash from (used for) investment activities	(656)	(587)	178
Effect of exchange rate changes on cash and time deposits	2	(12)	(1)
Increase (decrease) in cash and time deposits	(10)	74	458
Cash of companies consolidated (deconsolidated) – net	17	(12)	22
Cash and time deposits – beginning of year	608	546	66
Cash and time deposits – end of year	$ 615	$ 608	$ 546

(in millions of US$, except where indicated)

1. Nature of Operations

Alcan is engaged, together with subsidiaries, joint ventures and related companies, in all aspects of the aluminum business on an international scale. Its operations include the mining and processing of bauxite, the basic aluminum ore; the refining of bauxite into alumina; the generation of electric power for use in smelting aluminum; the smelting of aluminum from alumina; the recycling of used and scrap aluminum; the fabrication of aluminum, aluminum alloys and non-aluminum materials into semi-fabricated and finished products; the distribution and marketing of aluminum and non-aluminum products; and, in connection with its aluminum operations, the production and sale of industrial chemicals. Alcan, together with its subsidiaries, joint ventures and related companies, has bauxite holdings in six countries, produces alumina in six, smelts primary aluminum in five, operates aluminum fabricating plants in 13 and has sales outlets and maintains warehouse inventories in the larger markets of the world. Alcan also operates a global transportation network that includes bulk cargo vessels, port facilities and freight trains.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements, which are expressed in U.S. dollars, the principal currency of Alcan's business, are prepared in accordance with GAAP in Canada. They include the accounts of companies controlled by Alcan, virtually all of which are majority owned. Joint ventures, irrespective of percentage of ownership, are proportionately consolidated to the extent of Alcan's participation. Consolidated net income also includes Alcan's equity in the net income or loss of companies owned 50% or less where Alcan has significant influence over management, and the investment in these companies is increased or decreased by Alcan's share of their undistributed net income or loss and deferred translation adjustments since acquisition. Investments in companies in which Alcan does not have significant influence over management are carried at cost less amounts written off. Income is recorded to the extent of dividends received.

Intercompany balances and transactions, including profits in inventories, are eliminated.

Foreign Currency

The financial statements of self-sustaining foreign operations (located principally in Europe and Asia) are translated into U.S. dollars at prevailing exchange rates. Differences arising from exchange rate changes are included in the Deferred translation adjustments (DTA) component of Common shareholders' equity. If there is a reduction in the Company's ownership in a foreign operation, the relevant portion of DTA is recognized in Other income or Other expenses at that time.

Gains or losses on forward exchange contracts or currency options, all of which serve to hedge certain future identifiable foreign currency exposures, are included, together with related hedging costs, in Sales and operating revenues, Cost of sales and operating expenses or Property, plant and equipment, as applicable, concurrently with recognition of the underlying items being hedged.

Unrealized gains or losses on currency swaps, all of which are used to hedge certain identifiable foreign currency debt obligations, are recorded concurrently with the unrealized gains or losses on the debt obligations being hedged.

Other gains and losses from foreign currency denominated items are included in Other income or Other expenses.

(in millions of US$, except where indicated)

2. Summary of Significant Accounting Policies (cont'd)

Commodity Contracts and Options

Gains or losses on forward metal contracts and options, all of which serve to hedge certain future identifiable aluminum price exposures, are included, together with related hedging costs, in Sales and operating revenues or Cost of sales and operating expenses, as applicable, concurrently with recognition of the underlying items being hedged.

Interest Rate Swaps

Amounts receivable or payable under interest rate swaps are recorded in Interest concurrently with the interest expense on the underlying debt.

Inventories

Aluminum, raw materials and other supplies are stated at cost (determined for the most part on the monthly average method) or net realizable value, whichever is the lower.

Capitalization of Interest Costs

The Company capitalizes interest costs associated with the financing of major capital expenditures.

Depreciation

Depreciation is calculated on the straight-line method using rates based on the estimated useful lives of the respective assets. The principal rates are 2½% for buildings and range from 1% to 4% for power assets and 3% to 12½% for chemical, smelter and fabricating assets.

Environmental Costs and Liabilities

Environmental expenses are accrued when it is probable that a liability for past events exists. For future removal and site restoration costs, provision is made in a systematic manner by periodic charges to income, except for assets that are no longer in use, in which case full provision is charged immediately to income. Environmental expenses are normally included in Cost of sales and operating expenses except for large, unusual amounts which are included in Other expenses. Accruals related to environmental costs are included in Payables and Deferred credits and other liabilities.

Environmental expenditures of a capital nature that extend the life, increase the capacity or improve the safety of an asset or that mitigate or prevent environmental contamination that has yet to occur are included in Property, plant and equipment and are depreciated generally over the remaining useful life of the underlying asset.

Postretirement Benefits Other than Pensions

The costs of postretirement benefits other than pensions are recognized on an accrual basis over the working lives of employees.

Income Taxes

Beginning in 1998, the Company uses the liability method for income taxes, under which deferred income tax liabilities are revalued for all changes in tax rates and exchange rates (see note 3). Prior to 1998, the Company used the deferral method.

Net Income per Common Share

Net income per common share is calculated by dividing Net income attributable to common shareholders by the average number of common shares outstanding (1998: 227.4 million; 1997: 227.0 million; 1996: 226.2 million).

(in millions of US$, except where indicated)

3. Accounting Changes

In 1998, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) dealing with accounting for income taxes. The principal change under the new recommendations is the requirement to revalue deferred income taxes for changes in tax rates and exchange rates.

The Company has adopted the new recommendations retroactively without restating prior years. The cumulative effect of adopting the new recommendations at January 1, 1998, is to decrease Deferred income taxes by $285, to increase retained earnings by $306 and to decrease Deferred translation adjustments by $21.

The impact of the revaluation of deferred income taxes to reflect current exchange rates is to decrease the Company's 1998 income tax provision by $31.

In 1998, the Company adopted, retroactively, the new recommendations of the CICA dealing with segment disclosures (see note 23).

4. Extraordinary Items – Kemano Completion Project

An extraordinary gain of $26 ($17 after tax or 7 cents per common share) in the fourth quarter of 1997 arose from the sale of a portion of a contract to supply power to B.C. Hydro, net of additional write-downs of remaining Kemano Completion Project ("KCP") assets. In addition to the commitment by the government of British Columbia to supply replacement power at attractive rates for a possible smelter expansion, the settlement of the dispute regarding the cancellation of KCP allowed the Company to sell to a third party the right to supply a specified amount of power to B.C. Hydro under an ongoing contract. An extraordinary loss of $420 ($280 after tax or $1.24 per common share) was recorded in 1995 following the cancellation of the project.

5. Differences Between Canadian and United States Generally Accepted Accounting Principles (GAAP)

Currency Translation

Under Canadian GAAP, unrealized exchange gains and losses on translation of long-term monetary items are deferred and amortized over the life of those items, whereas, under U.S. GAAP, such gains and losses are absorbed in income immediately.

Deferred Income Taxes

Beginning in 1998, the Company adopted the new accounting standards approved by the Canadian Institute of Chartered Accountants dealing with accounting for income taxes. These new standards are substantially identical to U.S. GAAP as contained in FASB Statement No. 109.

Prior to 1998, under Canadian GAAP, deferred income taxes were measured at tax rates prevailing at the time the provisions for deferred taxes were made. Deferred income taxes for U.S. GAAP were revalued each period using currently enacted tax rates.

Also, prior to 1998, under Canadian GAAP, deferred income taxes of operations using the temporal method were translated at historical exchange rates, while under U.S. GAAP, deferred income taxes of all operations were translated at current exchange rates.

Investments

Under U.S. GAAP, certain portfolio investments which are considered to be "available-for-sale" securities are measured at market value, with the unrealized gains or losses included in Comprehensive income. Under Canadian GAAP, these investments are measured at cost.

Comprehensive Income

Beginning in 1998, U.S. GAAP requires the disclosure of Comprehensive income which, for the Company, is Net income under U.S. GAAP plus the movement in Deferred translation adjustments under U.S. GAAP (see note 16) plus the unrealized gain or loss for the period on "available-for-sale" securities. The concept of Comprehensive income does not exist under Canadian GAAP.

(in millions of US$, except where indicated)

5. Differences Between Canadian and United States Generally Accepted Accounting Principles (GAAP) (cont'd)

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Reconciliation of Canadian and U.S. GAAP

	1998		1997		1996	
	As Reported	U.S. GAAP	As Reported	U.S. GAAP	As Reported	U.S. GAAP
Net income from continuing operations before extraordinary item	$ 399	$ 417	$ 468	$ 504	$ 410	$ 420
Extraordinary gain	—	—	17	17	—	—
Net income*	$ 399	$ 417	$ 485	$ 521	$ 410	$ 420
Net income attributable to common shareholders	$ 389	$ 407	$ 475	$ 511	$ 394	$ 404
Extraordinary gain per common share	$ —	$ —	$ 0.07	$ 0.07	$ —	$ —
Net income per common share (basic and diluted)	$ 1.71	$ 1.79	$ 2.09	$ 2.25	$ 1.74	$ 1.79
Comprehensive income	n/a	$ 435	n/a	$ 383	n/a	$ 347
Investments – December 31	$ 58	$ 103	$ 251	$ 251	$ 331	$ 331
Deferred income taxes – December 31	$ 747	$ 747	$ 969	$ 684	$ 996	$ 755
Retained earnings – December 31	$ 4,078	$ 4,129	$ 3,556	$ 3,895	$ 3,217	$ 3,520
Deferred translation adjustments (DTA) – December 31	$ 30	$ (24)	$ 64	$ 3	$ 209	$ 141

$51

$54

total 555

* *In 1997, $37 ($2 in 1996) of the net difference between "As Reported" and "U.S. GAAP" relates to accounting for deferred income taxes. In 1997, $23 of this difference arose from changes in tax rates and regulations enacted during the year.*

For 1997 and 1996, the principal items included in Deferred income taxes under U.S. GAAP were:

	December 31	
	1997	1996
Liabilities:		
Property, plant and equipment	$ 767	$ 810
Undistributed earnings	29	60
Inventory valuation	52	43
Other	64	77
	912	990
Assets:		
Tax benefit carryovers	114	121
Accounting provisions not currently deductible for tax	164	180
Other	26	18
	304	319
Valuation allowance (amount not likely to be recovered)	76	84
	228	235
Net deferred income tax liability	$ 684	$ 755

(in millions of US$, except where indicated)

5. Differences Between Canadian and United States Generally Accepted Accounting Principles (GAAP) (cont'd)

The difference between DTA under Canadian GAAP and U.S. GAAP arises principally from the impact of FASB Statement No. 109 and from the different treatment of exchange on long-term debt at January 1, 1983, resulting from the adoption of accounting standards on foreign currency translation.

Net income from continuing operations on a U.S. GAAP basis for the years 1995 and 1994 was $266 and $175, respectively, compared to $263 and $96, respectively, as reported. Net income from continuing operations per common share on a U.S. GAAP basis for the years 1995 and 1994 was $1.07 and $0.69, respectively, compared to $1.06 and $0.34, respectively, as reported.

Beginning in 2000, the Company will be implementing, for U.S. GAAP only, FASB Statement No. 133, Accounting for Derivatives and Hedging Activities. The Company is currently assessing the impact of the new standard, which will affect how the Company measures and reports the various financial instruments that it uses in its risk management activities.

6. Income Taxes

	1998	1997	1996
Income before income taxes and other items			
Canada	$ 175	$ 360	$ 235
Other countries	478	393	398
	653	753	633
Current income taxes			
Canada	65	251	87
Other countries	116	5	110
	181	256	197
Deferred income taxes			
Canada	(22)	(28)	(5)
Other countries	51	20	20
	29	(8)	15
Income tax provision	$ 210	$ 248	$ 212

The composite of the applicable statutory corporate income tax rates in Canada is 40.4% (1997: 40.3%; 1996: 40.1%). The following is a reconciliation of income taxes calculated at the above composite statutory rates with the income tax provision:

	1998	1997	1996
Income taxes at the composite statutory rate	$ 264	$ 303	$ 254
Differences attributable to:			
Exchange translation items	46	13	11
Exchange revaluation of deferred income taxes	(31)	n/a	n/a
Effect of tax rate changes on deferred income taxes	(4)	n/a	n/a
Unrecorded tax benefits on losses – net	(3)	(12)	(33)
Investment and other allowances	(21)	(32)	(24)
Large corporations tax	4	3	3
Withholding taxes	5	5	6
Reduced rate or tax exempt items	(47)	(3)	17
Foreign tax rate differences	(16)	(5)	(18)
Prior years' tax adjustments	3	(31)	(11)
Other – net	10	7	7
Income tax provision	$ 210	$ 248	$ 212

(in millions of US$, except where indicated)

6. Income Taxes (cont'd)

At December 31, 1998, the principal items included in Deferred income taxes are:

Liabilities:	
Property, plant and equipment	$ 773
Undistributed earnings	20
Inventory valuation	49
Other	73
	915
Assets:	
Tax benefit carryovers	99
Accounting provisions not currently deductible for tax	167
Other	13
	279
Valuation allowance (amount not likely to be recovered)	111
	168
Net deferred income tax liability	$ 747

In 1997, $19 ($7 in 1996) of benefits related to income tax loss carryforwards were recorded in deferred income tax expense.

Based on rates of exchange at December 31, 1998, tax benefits of approximately $50 relating to prior and current years' operating losses and $45 of benefits related to capital losses and tax credits carried forward will be recognized in income when it is more likely than not that such benefits will be realized.

In 1997, income taxes on Canadian operations for the years 1988 to 1991 were reassessed by the Canadian tax authorities. Most of the additional taxes and interest relate to transfer pricing issues and are recoverable in other countries (see note 22). The process to obtain recoveries from other countries is under way. Existing provisions are adequate to cover any amounts not recoverable.

7. Joint Ventures

The activities of the Company's major joint ventures are the procurement and processing of raw materials in Australia, Brazil, Guinea and Jamaica, as well as aluminum rolling operations in Germany and the United States.

Alcan's proportionate interest in all joint ventures is included in the consolidated financial statements. Summarized financial information relating to Alcan's share of these joint ventures is provided below.

Because most of the activities of the Company's joint ventures relate to supplying the Company's other operations, the portion of the Company's third-party revenues, and related costs and expenses, conducted through joint ventures is insignificant.

	1998	1997	1996
Financial position at December 31			
Inventories	$ 174	$ 189	$ 159
Property, plant and equipment – net	959	943	1,001
Other assets	101	60	95
Total assets	$ 1,234	$ 1,192	$ 1,255
Short-term debt	$ 19	$ 38	$ 17
Debt not maturing within one year	123	100	106
Other liabilities	167	156	152
Total liabilities	$ 309	$ 294	$ 275
Cash flow information for the year ended December 31			
Cash from (used for) financing activities	$ (1)	$ 10	$ 12
Cash used for investment activities	$ (85)	$ (78)	$ (76)

(in millions of US$, except where indicated)

8. Investments

	1998	1997	1996
Companies accounted for under the equity method	$ 13	$ 245	$ 324
Portfolio investments – at cost, less amounts written off	45	6	7
	$ 58	$ 251	$ 331

As described in note 10, in the fourth quarter of 1998, the Company reduced its 45.6% interest in Nippon Light Metal Company, Ltd. (NLM) to 11.2%. With the reduction in Alcan's interest to below 20%, NLM is no longer accounted for on an equity basis but is treated as a portfolio investment.

As described in note 10, in July 1998, the Company acquired a controlling interest in Indian Aluminium Company, Limited (Indal), the accounts of which are now consolidated with those of the Company. Indal was previously treated as an equity investment.

For 1997 and 1996, the combined results of operations and financial position for NLM and Indal are included in the summary below. For 1998, the combined results of operations include information for NLM and Indal to the dates these entities ceased to be equity accounted investments.

In 1998, the Company recorded a special after-tax charge of $27 ($30 in 1997), included in Equity loss, reflecting the Company's share of construction contract losses and restructuring provisions in NLM. The 1996 information for NLM excludes, from the date of acquisition, the interest in those subsidiaries acquired by the Company from NLM as a result of the restructuring of the Company's holdings in Asia, explained in note 10.

	1998	1997	1996
Results of operations for the year ended December 31			
Revenues	$ 3,626	$ 5,572	$ 6,483
Costs and expenses	3,719	5,622	6,457
Income (loss) before income taxes	(93)	(50)	26
Income taxes	12	35	65
Net loss	$ (105)	$ (85)	$ (39)
Alcan's share of Net loss	$ (48)	$ (33)	$ (10)
Dividends received by Alcan	$ 5	$ 6	$ 11
Financial position at December 31			
Current assets	n/a	$ 2,600	$ 3,013
Current liabilities	n/a	2,519	2,735
Working capital	n/a	81	278
Property, plant and equipment – net	n/a	1,737	1,916
Other assets – net	n/a	335	261
	n/a	2,153	2,455
Debt not maturing within one year	n/a	1,376	1,422
Net assets	n/a	$ 777	$ 1,033
Alcan's equity in net assets	n/a	$ 245	$ 324

9. Property, Plant and Equipment

	1998	1997	1996
Cost (excluding Construction work in progress)			
Land and property rights	$ 236	$ 219	$ 236
Buildings, machinery and equipment	11,522	10,914	10,886
	$ 11,758	$ 11,133	$ 11,122

Accumulated depreciation relates primarily to Buildings, machinery and equipment.

In early 1999, the Company announced the sale of the Aughinish alumina refinery. Negotiations of the sale began in late 1998 and, as a result of that process, the Company determined that the value of these assets was impaired as at December 31, 1998. A charge of $143 reflecting the impairment is included in Other expenses. Excluding the impairment charge, these assets contributed approximately $27 of income before taxes in 1998.

(in millions of US$, except where indicated)

9. Property, Plant and Equipment (cont'd)

On an ongoing basis, capital expenditures of the Company are estimated at $450 per year. In addition, the Company expects to spend approximately $650 in 1999 on the construction of a new smelter at Alma, Quebec, and the continuation of its rolling mill expansion in Brazil.

10. Restructuring of Holdings in Asia

Japan

In the fourth quarter of 1998, the Company reduced its 45.6% investment in Nippon Light Metal Company, Ltd. (NLM) to 11.2%. The net cash proceeds from the sale of shares were approximately $193 with a corresponding gain, included in Other income, of approximately $146 ($140 after tax), including a previously deferred gain of $87 after tax related to the sale in 1996 of Toyo Aluminium K.K. (Toyal) to NLM.

In the third quarter of 1996, the Company sold its equity-accounted investment in Toyal to NLM, for cash proceeds of $207. Approximately $31 of the total after-tax gain of $128, including deferred translation adjustments, on this sale continues to be deferred and will be recognized if Alcan further reduces its remaining investment in NLM. In 1998, $87 of the gain was recognized ($7 in 1997 and $3 in 1996).

India

In 1998, the Company acquired an additional 20% of Indian Aluminium Company, Limited (Indal) for $70 in cash. As a result, Alcan obtained a controlling interest of 54.6% in Indal. The accounts of Indal have been consolidated with effect from July 1998. Prior to this date, Alcan accounted for its investment in Indal under the equity method.

Included in the Company's balance sheet at the date of acquisition were the following assets and liabilities of Indal:

Working capital	$ 40
Property, plant and equipment	212
Other assets – net	(5)
	247
Long-term debt	75
Minority interest	58
Net assets	$ 114

Southeast Asia

In November 1996, the Company and NLM created a new company, Alcan Nikkei Asia Holdings Ltd. (ANAH), owned 60% by Alcan and 40% by NLM. In exchange for shares in ANAH, the Company contributed a portion of its holdings in NLM while NLM contributed its shareholdings in a number of companies located in Malaysia, Thailand and China. At December 31, 1997 and 1996, the Company's effective ownership of ANAH was 78.2%, including its interest held through NLM, then accounted for under the equity method. As a result of the Company's sale during 1998 of most of its interest in NLM, now accounted for under the cost method, the Company's effective ownership in ANAH is 60%.

11. Deferred Credits and Other Liabilities

Deferred credits and other liabilities comprise the following elements:

	1998	1997	1996
Deferred revenues	$ 56	$ 56	$ 74
Deferred profit on sale of investments	2	14	16
Postretirement and post-employment benefits	395	390	405
Environmental liabilities	40	37	32
Rationalization costs	23	32	31
Claims	43	40	39
Other	45	54	76
	$ 604	$ 623	$ 673

(in millions of US$, except where indicated)

12. Debt Not Maturing Within One Year

	1998	1997	1996
Alcan Aluminium Limited			
Deutschmark bank loans, due 1999/2005 (DM364 million) (a)	$ 218	$ 213	$ 251
5.875% Debentures, due 2000	150	150	150
5.375% Swiss franc bonds, due 2003 (b)	130	123	132
CARIFA loan, due 2006 (c)	60	60	60
6.25% Debentures, due 2008	200	—	—
9.5% Debentures, due 2010 (d)	100	100	100
9.625% Sinking fund debentures, due 2000/2019 (d)	150	150	150
8.875% Debentures, due 2022 (e)	150	150	150
7.25% Debentures, due 2028	100	—	—
Other debt, due 2001	7	7	8
Alcan Aluminum Corporation			
7.25% Debentures, due 1999 (f)	100	100	100
Other debt, due 1999/2004	2	3	6
Alcan Deutschland GmbH and subsidiary companies			
6.78% Bank loans	—	—	2
5.65% Bank loans, due 2001 (DM15 million)	9	8	10
Bank loans, due 2000/2008 (DM107 million) (a)	64	56	65
Indian Aluminium Company, Limited			
Bank loans, due 1999/2006 (a)	51	—	—
6.55% Bank loans, due 2000/2002	18	—	—
Other debt, due 1999/2006	28	—	—
Queensland Alumina Limited			
Bank loans, due 2000/2003 (a)	78	79	71
Other companies			
Bank loans, due 1999/2011 (a)	71	51	48
4% Eurodollar exchangeable debentures, due 2003 (g)	14	24	24
Other debt, due 2002/2036	3	3	11
	1,703	1,277	1,338
Debt maturing within one year included in current liabilities	(166)	(36)	(19)
	$ 1,537	$ 1,241	$ 1,319

(a) Interest rates fluctuate principally with the lender's prime commercial rate, the commercial bank bill rate, or are tied to LIBOR rates.

(b) The Swiss franc bonds were issued as SFr178 million and were swapped for $105 at an effective interest rate of 8.98%.

(c) The Caribbean Basin Projects Financing Authority (CARIFA) loan bears interest at a rate related to U.S. LIBOR.

(d) The Company can redeem the 9.5% debentures between the years 2000 and 2007 at amounts declining from 104% to 100% of the principal and can redeem the 9.625% debentures between the years 1999 and 2009 at amounts declining from 105% to 100% of the principal. In certain circumstances prior to January 30, 2000, for the 9.5% debentures, or prior to July 30, 1999, for the 9.625% debentures, the holders may retract the debentures at 100%.

(e) The Company has the right to redeem the debentures during the years 2002 to 2012 at amounts declining from 104% to 100% of the principal amount.

(in millions of US$, except where indicated)

12. Debt Not Maturing Within One Year (cont'd)

(f) The following is summarized consolidated financial information for Alcan Aluminum Corporation, a wholly-owned subsidiary which consolidates virtually all of the Company's operations in the United States:

	1998	1997	1996
Results of operations for the year ended December 31			
Revenues	$ 3,766	$ 3,624	$ 3,389
Costs and expenses	3,482	3,438	3,242
Income before income taxes	284	186	147
Income taxes	110	81	55
Net income	$ 174	$ 105	$ 92
Financial position at December 31			
Current assets	$ 883	$ 801	$ 868
Current liabilities	483	376	578
Working capital	400	425	290
Property, plant and equipment – net	714	736	756
Other liabilities – net	(67)	(199)	(186)
	1,047	962	860
Debt not maturing within one year	2	102	105
Net assets	$ 1,045	$ 860	$ 755

The above figures are prepared using the accounting principles followed by the Company (see note 2), except that inventories have been valued principally by the last-in, first-out (LIFO) method.

(g) Debenture holders are entitled to receive at their option 1,772 common shares held by the Company in NLM, a portfolio investment, in exchange for each ten thousand dollar principal amount of debentures. The Company can redeem the debentures in 1999 at 100% of the principal.

The Company had swapped, to 1998, the interest payments on $100 of its floating rate debt in exchange for fixed interest payments.

Based on rates of exchange at year-end, debt repayment requirements over the next five years amount to $166 in 1999, $239 in 2000, $96 in 2001, $93 in 2002 and $255 in 2003.

The Company has a $1,000 global, multi-year and multi-currency facility with a syndicate of major international banks. At December 31, 1998, no funds had been borrowed under this facility and the full amount was available.

13. Preference Shares

Authorized

An unlimited number of Preference Shares issuable in series. All shares are without nominal or par value.

Authorized and Outstanding

In each of the years 1998, 1997 and 1996, there were authorized and outstanding 5,700,000 series C and 3,000,000 series E, redeemable non-retractable preference shares with stated values of $106 and $54, respectively.

The 1,700,000 series D redeemable non-retractable preference shares with stated value of $43, authorized and outstanding throughout 1996 and 1997, were redeemed in June 1998.

Preference shares, series C and E are eligible for quarterly dividends based on an amount related to the average of the Canadian prime interest rates quoted by two major Canadian banks for stated periods.

Preference shares, series C and E may be called for redemption at the option of the Company on 30 days' notice at CAN$25.00 per share.

Any partial redemption of preference shares must be made on a pro rata basis or by lot.

In 1996, 300 series G redeemable non-retractable shares with stated value of $150 were redeemed.

(in millions of US$, except where indicated)

14. Common Shares

The authorized common share capital is an unlimited number of common shares without nominal or par value. Changes in outstanding common shares are summarized below:

	Number (in thousands)			Stated Value		
	1998	1997	1996	**1998**	1997	1996
Outstanding – beginning of year	**227,344**	226,620	225,913	**$ 1,251**	$ 1,235	$ 1,219
Issued for cash:						
Executive share option plan	**135**	550	549	**2**	11	11
Dividend reinvestment and share purchase plans	**254**	174	158	**7**	5	5
Purchased for cancellation	**(1,730)***	—	—	**(9)**	—	—
Outstanding – end of year	**226,003**	227,344	226,620	**$ 1,251**	$ 1,251	$ 1,235

** 1,645 were cancelled in 1998 and 85 in 1999.*

Under the executive share option plan, certain employees may purchase common shares at market value on the effective date of the grant of each option. The average price of the shares covered by the outstanding options is CAN$38.16 per share. The vesting period for options granted after September 1998 is linked to Alcan's share price performance, but does not exceed nine years. Options granted before September 1998 vest generally over a fixed period of four years from the grant date and expire at various dates during the next 10 years. Changes in the number of shares under option are summarized below:

	Number (in thousands)		
	1998	1997	1996
Outstanding – beginning of year	**4,193**	3,715	3,473
Granted	**1,122**	1,100	853
Exercised	**(134)**	(550)	(549)
Cancelled	**(25)**	(72)	(62)
Outstanding – end of year	**5,156**	4,193	3,715

During 1998, the Company also granted 774,700 options, which grants become effective, subject to certain restrictions, upon the exercise of options previously granted.

At December 31, 1998, the Company had reserved for issue under the executive share option plan 19,266,536 shares.

The Company does not recognize compensation expense for options granted under the executive share option plan. If the Company had elected to recognize compensation expense for these options in accordance with the methodology prescribed by Statement No. 123 of the U.S. Financial Accounting Standards Board, net income would have been lower by $9, or $0.04 per share, ($10, or $0.04 per share, in 1997 and $8, or $0.04 per share, in 1996).

Under a normal course issuer bid, which terminates on September 28, 1999, the Company is authorized to repurchase up to 22,700,000 common shares, representing approximately 10% of the outstanding shares. In 1998, 1,730,000 common shares were purchased under this authorization.

Shareholder Rights Plan

In 1990, shareholders approved a plan whereby each common share of the Company carries one right to purchase additional common shares. The plan, with certain amendments, was reconfirmed at the 1995 Annual Meeting. The rights under the plan are not currently exercisable but may become so upon the acquisition by a person or group of affiliated or associated persons ("Acquiring Person") of beneficial ownership of 20% or more of the Company's outstanding voting shares or upon the commencement of a takeover bid. Holders of rights, with the exception of an Acquiring Person, in such circumstances will be entitled to purchase from the Company, upon payment of the exercise price (currently $100.00), such number of additional common shares as can be purchased for twice the exercise price based on the market value of the Company's common shares at the time the rights become exercisable.

(in millions of US$, except where indicated)

14. Common Shares (cont'd)

Shareholder Rights Plan (cont'd)

The plan has a permitted bid feature which allows a takeover bid to proceed without the rights under the plan becoming exercisable, provided that it meets certain minimum specified standards of fairness and disclosure, even if the Board does not support the bid.

The rights expire in 1999, but may be redeemed earlier by the Board, with the prior consent of the holders of rights or common shares, for 1 cent per right. In addition, should a person or group of persons acquire outstanding voting shares pursuant to a permitted bid or a share acquisition in respect of which the Board has waived the application of the plan, the Board shall be deemed to have elected to redeem the rights at 1 cent per right.

The shareholders will be asked at the 1999 Annual Meeting to approve amendments to the plan described in the Management Proxy Circular for that meeting which, if approved, will extend the plan until May 1, 2008, unless terminated earlier, with reconfirmation at the Annual meeting of shareholders in 2002 and 2005. If the amendments are not approved, the plan will remain in effect until December 14, 1999, unless terminated earlier.

15. Retained Earnings

Consolidated retained earnings at December 31, 1998, include $2,410 of undistributed earnings of subsidiaries and joint ventures, some part of which may be subject to certain taxes and other restrictions on distribution to the parent company; no provision is made for such taxes because these earnings are reinvested in the business.

16. Currency Gains and Losses

The following are the amounts recognized in the financial statements:

	1998	1997	1996
Currency gains (losses) excluding realized deferred translation adjustments:			
Forward exchange contracts and currency options	$ (58)	$ 22	$ 40
Other	4	1	(4)
	$ (54)	$ 23	$ 36
Deferred translation adjustments – beginning of year			
As previous reported	$ 64	$ 209	$ 304
Accounting change *(note 3)*	(21)	—	—
As restated	43	209	304
Effect of exchange rate changes	28	(143)	(94)
Gains realized*	(41)	(2)	(1)
Balance – end of year	$ 30	$ 64	$ 209

* *The gain realized in 1998 relates principally to the sale of a portion of the Company's investment in Nippon Light Metal Company, Ltd.*

In 1998, $5 of exchange losses related to hedging of Canadian dollar construction costs of the new smelter at Alma, in Quebec, are included in Construction work in progress.

(in millions of US$, except where indicated)

17. Financial Instruments and Commodity Contracts

In conducting its business, the Company uses various instruments, including forward contracts and options, to manage the risks arising from fluctuations in exchange rates, interest rates and aluminum prices. All such instruments are used for risk management purposes only.

Financial Instruments – Currency

The Company seeks to manage the risks arising from movements in exchange rates on identifiable firm cost commitments (principally Canadian dollar) and certain foreign currency denominated revenues. A combination of forward exchange contracts and options, covering periods of up to three years, are used to manage these risks.

At December 31, 1998, the contract amount of forward exchange contracts outstanding used to hedge future firm operating cost commitments was $426 ($1,296 in 1997 and $1,791 in 1996) while the contract amount of purchased options outstanding used to hedge future firm operating cost commitments was $1,499 ($1,512 in 1997 and $614 in 1996). At December 31, 1998, the contract amount of outstanding forward exchange contracts used to hedge future revenues was $47 ($268 in 1997 and $387 in 1996). At December 31, 1998, the contract amount of forward exchange contracts outstanding used to hedge future Canadian dollar commitments for the construction of a new smelter at Alma, Quebec, was $281 (nil in 1997 and 1996) while the contract amount of purchased options outstanding used to hedge the Canadian dollar commitments for the new smelter was $315 (nil in 1997 and 1996).

The market value of outstanding forward exchange contracts related to hedges of operating costs or revenues at December 31, 1998 was such that if these contracts had been closed out, the Company would have paid $18 (paid $24 in 1997 and received $17 in 1996). Based on prevailing market prices, if the currency option contracts related to operating cost commitments had been closed out on December 31, 1998, the Company would have paid $33 (paid $36 in 1997 and received $1 in 1996). The market value at December 31, 1998 of outstanding forward exchange contracts related to hedges of cost commitments for the new smelter at Alma, Quebec, was such that if these contracts had been closed out, the Company would have paid $8. Based on prevailing market prices, if the currency option contracts relating to smelter construction cost commitments had been closed out at December 31, 1998, the Company would have paid $2. Unrealized gains and losses on outstanding forward contracts and options are not recorded in the financial statements until maturity of the underlying transactions.

In addition, certain intercompany foreign currency denominated loans are hedged through the use of forward exchange contracts. At December 31, 1998, the contract amount of such forward contracts was $212 ($220 in 1997 and $231 in 1996) and the market value was such that if these contracts had been closed out, the Company would have received $4 ($16 in 1997 and $2 in 1996).

Included in Deferred charges and other assets and Receivables was an amount of $71($2 in 1996) consisting of net losses on terminated forward exchange contracts and options, as well as the net cost of outstanding options, used to hedge future costs, including costs related to the construction of the new smelter at Alma. These deferred charges are included in the cost of the items being hedged at the same time as the underlying transactions being hedged are recognized.

Financial Instruments – Debt Not Maturing Within One Year

As explained in note 12, the 5.375% Swiss franc bonds of principal amount SFr178 have been swapped for $105 at an effective interest rate of 8.98%. If the swap had been closed out at December 31, 1998, the Company would have received a net amount of $24 ($15 in 1997 and $32 in 1996), of which an amount of $25 related to the swap of the principal ($18 in 1997 and $27 in 1996) has been recorded in Deferred charges and other assets.

Financial Instruments – Interest Rates

The Company sometimes enters into interest rate swaps to manage funding costs as well as the volatility of interest rates. Amounts receivable or payable related to swaps are recorded in Interest concurrently with the interest expense on the underlying debt.

Changes in the fair value of the interest rate swaps are not recognized on a mark to market basis since these relate specifically to interest costs on identifiable debt.

There were no significant interest rate swap agreements outstanding at December 31, 1998. If all interest rate swap agreements had been closed out on December 31, 1997, the Company would have paid $2 ($6 in 1996), based on prevailing interest rates.

(in millions of US$, except where indicated)

17. Financial Instruments and Commodity Contracts (cont'd)

Commodity Contracts – Metal

Depending on supply and market conditions, as well as for logistical reasons, the Company may sell primary metal to third parties and may purchase primary and secondary aluminum on the open market to meet its fabricated products requirements. In addition, the Company may hedge certain commitments arising from pricing arrangements with some of its customers.

Through the use of forward purchase and sales contracts and options, the Company seeks to limit the negative impact of low metal prices whilst retaining most of the benefit from higher metal prices.

At December 31, 1998, the Company had outstanding forward purchase contracts covering 465,600 tonnes (418,800 tonnes at December 31, 1997 and 474,300 tonnes at December 31, 1996), maturing at various dates principally in 1999, 2000 and 2001 (1998, 1999 and 2000 at December 31, 1997 and 1997, 1998 and 1999 at December 31, 1996). In addition, the Company held call options outstanding for 346,000 tonnes (657,800 tonnes at December 31, 1997 and 591,300 tonnes at December 31, 1996) maturing at various dates in 1999 and 2000 (1998 and 1999 at December 31, 1997 and 1997 and 1998 at December 31, 1996).

At December 31, 1998, the Company held put options, maturing in 1999, which establish a minimum price for the metal component of 20,000 tonnes of the Company's future sales (60,000 tonnes maturing in 1998 and 1999 at December 31, 1997).

Included in Receivables or Deferred charges and other assets is $22 ($33 in 1997 and $25 in 1996) representing the net cost of outstanding options.

The option premiums paid and received, together with the realized gains or losses on the contracts, are included in Sales and operating revenues or Cost of sales and operating expenses, as applicable, concurrently with recognition of the underlying items being hedged.

Based on metal prices prevailing on December 31, 1998, if all commodity forward purchase contracts and options had been closed out, the Company would have paid $30 (paid $9 in 1997 and received $20 in 1996).

Counterparty Risk

As exchange rates, interest rates and metal prices fluctuate, the above contracts will generate gains and losses that will be offset by changes in the value of the underlying items being hedged. The Company may be exposed to losses in the future if the counterparties to the above contracts fail to perform. However, the Company is satisfied that the risk of such non-performance is remote, due to its controls on credit exposures.

Financial Instruments – Market Value

On December 31, 1998, the fair value of the Company's long-term debt totalling $1,703 ($1,277 in 1997 and $1,338 in 1996) was $1,762 ($1,321 in 1997 and $1,363 in 1996), based on market prices for the Company's fixed rate securities and the book value of variable rate debt.

At December 31, 1998, the quoted market value of the Company's portfolio investments having a book value of $45 was $90. Prior to 1998, portfolio investments held by the Company were not significant.

At December 31, 1998, the market value of the Company's preference shares having a book value of $160 was $140. (In 1997 and 1996, the market value was approximately equal to book value.)

The market values of all other financial assets and liabilities are approximately equal to their carrying values.

18. Commitments and Contingencies

The Company has guaranteed the repayment of approximately $7 of indebtedness by third parties. Alcan believes that none of these guarantees is likely to be invoked. Commitments with third parties and certain related companies for supplies of goods and services are estimated at $373 in 1999, $212 in 2000, $35 in 2001, $35 in 2002, $25 in 2003, and $97 thereafter. Most of the commitments in 1999 and 2000 relate to the construction of the new smelter at Alma, Quebec. Total fixed charges from these entities, excluding $175 in relation to the smelter at Alma, were $23 in 1998, $9 in 1997 and $14 in 1996.

Minimum rental obligations are estimated at $41 in 1999, $36 in 2000, $23 in 2001, $21 in 2002, $19 in 2003 and $51 thereafter. Total rental expenses amounted to $83 in 1998, $70 in 1997 and $80 in 1996.

(in millions of US$, except where indicated)

18. Commitments and Contingencies (cont'd)

Alcan, in the course of its operations, is subject to environmental and other claims, lawsuits and contingencies. Accruals have been made in specific instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may arise in other instances for which no accruals have been made, the Company does not believe that such an outcome will significantly impair its operations or have a material adverse effect on its financial position.

In addition, see reference to income taxes in note 6, capital expenditures in note 9, debt repayments in note 12, financial instruments and commodity contracts in note 17 and year 2000 compliance in note 19.

19. Year 2000 Compliance

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in possible errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Generally, costs associated with the Year 2000 Issue are being expensed as incurred.

20. Supplementary Information

	1998	1997	1996
Income statement			
Interest on long-term debt	$ 93	$ 91	$ 109
Capitalized interest	$ (15)	$ (2)	$ —
Balance sheet			
Payables			
Accrued employment costs	$ 196	$ 170	$ 167
Short-term borrowings (principally from banks)	$ 86	$ 238	$ 178
At December 31, 1998, the weighted average interest rate on short-term borrowings was 4.7% (5.3% in 1997 and 4.8% in 1996).			
Statement of cash flows			
Interest paid	$ 96	$ 101	$ 133
Income taxes paid	$ 298	$ 261	$ 214
All time deposits qualify as cash equivalents.			

21. Postretirement Benefits

Alcan and its subsidiaries have established pension plans in the principal countries where they operate, for the greater part contributory and generally open to all employees. Most plans provide pension benefits that are based on the employee's highest average eligible compensation during any consecutive 36-month period before retirement. Plan assets consist primarily of listed stocks and bonds.

Alcan's funding policy is to contribute the amount required to provide for benefits attributed to service to date, with projection of salaries to retirement, and to amortize unfunded actuarial liabilities for the most part over periods of 15 years or less, generally corresponding to the expected average remaining service life of the employees.

The Company provides life insurance benefits under some of its retirement plans. Certain early retirement arrangements also provide for medical benefits, generally only until the age of 65. These plans are not funded.

(in millions of US$, except where indicated)

21. Postretirement Benefits (cont'd)

	Pension Benefits			Other Benefits		
	1998	1997	1996	1998	1997	1996
Change in the actuarial Projected Benefit Obligation (PBO) for Pension Benefits and Accumulated Benefit Obligation (ABO) for Other Benefits						
PBO/ABO at January 1	$ 3,550	$ 3,506	$ 3,210	$ 172	$ 178	$ 191
Service cost	84	73	69	4	4	4
Interest cost	236	231	225	11	12	12
Members' contributions	20	20	19	—	—	—
Benefits paid	(200)	(189)	(195)	(9)	(9)	(11)
Amendments	80	47	80	—	—	(16)
Acquisitions/divestitures	(1)	(176)	(25)	—	—	—
Actuarial (gain) loss	45	63	54	(2)	(13)	(2)
Currency (gains) losses	13	(25)	69	—	—	—
PBO/ABO at December 31	$ 3,827	$ 3,550	$ 3,506	$ 176	$ 172	$ 178
Change in market value of plan assets (Assets)						
Assets at January 1	$ 4,231	$ 3,986	$ 3,447	$ —	$ —	$ —
Actual return on assets	204	566	617	—	—	—
Members' contributions	20	20	19	—	—	—
Benefits paid	(200)	(189)	(195)	—	—	—
Company contributions	36	38	36	—	—	—
Acquisitions/divestitures	—	(176)	(13)	—	—	—
Currency gains (losses)	7	(14)	75	—	—	—
Assets at December 31	$ 4,298	$ 4,231	$ 3,986	$ —	$ —	$ —
Assets in excess of PBO/ABO	$ 471	$ 681	$ 480	$ (176)	$ (172)	$ (178)
Unamortized						
– actuarial (gains) losses	(736)	(943)	(779)	(24)	(24)	(13)
– prior service cost	263	276	313	(5)	(9)	(13)
– net initial (surplus) liability	(27)	(48)	(71)	2	2	2
Net liability in balance sheet	$ (29)	$ (34)	$ (57)	$ (203)	$ (203)	$ (202)

The ABO of pension plans is $3,414 ($3,156 in 1997 and $3,136 in 1996). For certain plans, the ABO exceeds the market value of the assets. For these plans, the ABO is $1,239 ($1,086 in 1997 and $212 in 1996) while the market value of the assets is $1,041 ($951 in 1997 and $65 in 1996).

	Pension Benefits			Other Benefits		
	1998	1997	1996	1998	1997	1996
Components of net periodic benefit cost						
Service cost	$ 84	$ 73	$ 69	$ 4	$ 4	$ 4
Interest cost	236	231	225	11	12	12
Expected return on assets	(293)	(274)	(248)	—	—	—
Amortization						
– actuarial (gains) losses	(74)	(67)	(21)	(2)	(2)	(1)
– prior service cost	94	83	33	(4)	(4)	(3)
– net initial (surplus) liability	(21)	(22)	(23)	—	—	—
Curtailment/settlement (gains) losses	—	—	(5)	—	—	(1)
Net periodic benefit cost	$ 26	$ 24	$ 30	$ 9	$ 10	$ 11

(in millions of US$, except where indicated)

21. Postretirement Benefits (cont'd)

	Pension Benefits			Other Benefits		
	1998	1997	1996	**1998**	1997	1996
Weighted-average assumptions at December 31						
Discount rate	**6.3%**	6.8%	7.2%	**6.4%**	6.7%	7.0%
Average compensation growth	**4.3%**	4.9%	4.9%	**4.5%**	4.9%	5.2%
Expected return on assets	**7.2%**	7.3%	7.3%	**n/a**	n/a	n/a

The assumed health care cost trend rate used for measurement purposes was 8.5% for 1999, decreasing gradually to 4.0% in 2006 and remaining at that level thereafter. A one percentage point change in assumed health care cost trend rates would have the following effects:

	Other Benefits	
	1% Increase	1% Decrease
Sensitivity Analysis		
Effect on service and interest cost	1	(1)
Effect on ABO	9	(8)

22. Information by Geographic Areas

	Location	1998	1997	1996
Sales and operating revenues – subsidiaries	Canada	$ 1,980	$ 1,926	$ 2,169
	United States	504	541	499
	South America	37	41	25
	United Kingdom	294	369	256
	Germany	143	203	184
	Other Europe	301	318	318
	Asia and Pacific	70	68	78
	All other	358	350	349
	Sub-total	3,687	3,816	3,878
	Consolidation eliminations	(3,687)	(3,816)	(3,878)
	Total	$ —	$ —	$ —
	Sales to subsidiary companies are made at fair market prices recognizing volume, continuity of supply and other factors.			
Sales and operating revenues – third parties	Canada	$ 1,004	$ 1,169	$ 1,210
	United States	3,229	3,063	2,871
	South America	369	395	579
	United Kingdom	515	538	576
	Germany	1,379	1,291	1,289
	Other Europe	777	780	768
	Asia and Pacific	491	515	290
	All other	25	26	31
	Total	$ 7,789	$ 7,777	$ 7,614

(in millions of US$, except where indicated)

22. Information by Geographic Areas (cont'd)

	Location	1998	1997	1996
Net income*	Canada	$ 133	$ 245	$ 175
	United States	144	136	70
	South America	13	27	42
	United Kingdom	2	22	51
	Germany	7	—	(25)
	Other Europe	(98)**	33	(5)
	Asia and Pacific	117***	(1)	13
	All other	39	35	31
	Consolidation eliminations	42	(29)	58
	Net income before extraordinary item	399	468	410
	Extraordinary gain – Canada	—	17	—
	Total	$ 399	$ 485	$ 410
Total assets at December 31	Canada	$ 4,959	$ 4,077	$ 4,159
	United States	2,008	1,848	1,820
	South America	880	729	739
	United Kingdom	953	946	921
	Germany	1,195	1,228	1,262
	Other Europe	837	1,094	1,082
	Asia and Pacific	830	741	886
	All other	516	498	477
	Consolidation eliminations	(2,277)	(1,787)	(2,118)
	Total	$ 9,901	$ 9,374	$ 9,228
Capital expenditures and investments	Canada	$ 326	$ 186	$ 143
	United States	62	71	55
	South America	188	118	43
	United Kingdom	85	97	50
	Germany	44	55	79
	Other Europe	35	54	56
	Asia and Pacific	84	21	7
	All other	53	39	49
	Total	$ 877	$ 641	$ 482
Average number of employees *(in thousands)*	Canada	11	11	11
	United States	4	4	4
	South America	3	3	4
	United Kingdom	3	3	4
	Germany	5	5	4
	Other Europe	3	3	4
	Asia and Pacific	5	2	1
	All other	2	2	2
	Total	36	33	34

* *If presented to reflect the effect of prior years' income tax reassessments described in note 6, net income in Canada in 1997 would be reduced by $109 and increased by $93 in the United States, $8 in the United Kingdom and $8 in Germany.*

** *Includes write-down of $120 after tax related to the Aughinish alumina refinery.*

*** *Includes gain of $140 after tax related to the sale of a portion of the Company's investment in Nippon Light Metal Company, Ltd.*

(in millions of US$, except where indicated)

23. Information by Product Sectors

The following presents selected information by major product sector, viewed on a stand-alone basis and as viewed by senior management. Transactions between product sectors are conducted on an arm's-length basis and reflect market prices. Thus, profit on all alumina produced by the Company, whether sold to third parties or used in the Company's smelters, is included in the alumina and chemicals sector. Similarly, income from primary metal operations is mainly profit on metal produced by the Company, whether sold to third parties or used in the Company's fabricating operations. Income from fabricated products businesses represents only the fabricating profit on rolled products and downstream businesses.

	Sales and operating revenues						Operating income		
	Intersector			Third parties					
	1998	1997	1996	1998	1997	1996	1998	1997	1996
Alumina and chemicals	$ 516	$ 520	$ 507	$ 509	$ 536	$ 529	$ 113	$ 118	$ 84
Primary metal	1,394	1,486	1,628	1,304	1,487	1,321	346	606	523
Fabricated products	—	—	—	5,963	5,737	5,744	310	280	124
Intersector and other items	(1,910)	(2,006)	(2,135)	13	17	20	117	(28)	143
	$ —	$ —	$ —	$ 7,789	$ 7,777	$ 7,614	$ 886	$ 976	$ 874
Reconciliation to net income before extraordinary item									
Equity loss							(48)	(33)	(10)
Corporate offices							(137)	(126)	(117)
Interest							(92)	(101)	(125)
Income taxes							(210)	(248)	(212)
Net income before extraordinary item							$ 399	$ 468	$ 410

Included in 1998 Intersector and other items are the gain of $146 from the sale of a portion of the Company's interest in NLM and the loss of $143 related to the impairment of the Aughinish alumina refinery assets to be sold in 1999.

Included in 1998 operating income for Fabricated products is $16 related to rationalization costs in Europe and Asia.

Total Assets at December 31	1998	1997	1996
Alumina and chemicals	$ 1,501	$ 1,409	$ 1,357
Primary metal	3,037	2,880	2,795
Fabricated products	4,706	4,318	4,198
Cash, equity companies and other items	657	767	878
	$ 9,901	$ 9,374	$ 9,228

	Depreciation			Capital Expenditures		
	1998	1997	1996	1998	1997	1996
Alumina and chemicals	$ 80	$ 78	$ 75	$ 137	$ 126	$ 142
Primary metal	147	138	136	338	220	127
Fabricated products	225	210	211	395	282	207
Intersector and other items	10	10	9	7	13	6
	$ 462	$ 436	$ 431	$ 877	$ 641	$ 482

24. Prior Year Amounts

Certain prior year amounts have been reclassified to conform with the 1998 presentation.

Quarterly Financial Data

(in millions of US$, except where indicated)

(unaudited)	First	Second	Third	Fourth	Year
1998					
Revenues	$ 1,971	$ 2,005	$ 1,960	$ 2,084	$ 8,020
Cost of sales and operating expenses	1,497	1,549	1,514	1,516	6,076
Depreciation	110	113	116	123	462
Income taxes	78	76	44	12	210
Other items	169	181	179	344	873
Net income[1]	$ 117	$ 86	$ 107	$ 89	$ 399
Dividends on preference shares	3	2	3	2	10
Net income attributable to common shareholders	$ 114	$ 84	$ 104	$ 87	$ 389
Net income per common share *(in US$)*[2]	$ 0.50	$ 0.37	$ 0.46	$ 0.38	$ 1.71
Net income under U.S. GAAP[3]	$ 117	$ 94	$ 103	$ 103	$ 417
1997					
Revenues	$ 1,898	$ 2,030	$ 1,965	$ 1,972	$ 7,865
Cost of sales and operating expenses	1,453	1,555	1,506	1,491	6,005
Depreciation	107	110	106	113	436
Income taxes	42	69	76	61	248
Other items	153	180	197	178	708
Net income before extraordinary item	143	116	80	129	468
Extraordinary gain	—	—	—	17	17
Net income[1]	$ 143	$ 116	$ 80	$ 146	$ 485
Dividends on preference shares	3	2	2	3	10
Net income attributable to common shareholders	$ 140	$ 114	$ 78	$ 143	$ 475
Net income before extraordinary item per common share *(in US$)*[2]	$ 0.62	$ 0.50	$ 0.34	$ 0.56	$ 2.02
Extraordinary gain per common share *(in US$)*	—	—	—	0.07	0.07
Net income per common share *(in US$)*[2]	$ 0.62	$ 0.50	$ 0.34	$ 0.63	$ 2.09
Net income before extraordinary item under U.S. GAAP[3]	$ 142	$ 141	$ 90	$ 131	$ 504
Net income under U.S. GAAP[3]	$ 142	$ 141	$ 90	$ 148	$ 521
1996					
Revenues	$ 2,015	$ 1,972	$ 1,881	$ 1,821	$ 7,689
Cost of sales and operating expenses	1,532	1,506	1,464	1,417	5,919
Depreciation	110	108	108	105	431
Income taxes	65	69	53	25	212
Other items	183	177	155	202	717
Net income[1]	$ 125	$ 112	$ 101	$ 72	$ 410
Dividends on preference shares	5	5	4	2	16
Net income attributable to common shareholders	$ 120	$ 107	$ 97	$ 70	$ 394
Net income per common share *(in US$)*[2]	$ 0.53	$ 0.47	$ 0.43	$ 0.31	$ 1.74
Net income under U.S. GAAP[3]	$ 120	$ 118	$ 111	$ 71	$ 420

[1] *The first quarter of 1998 included an after-tax charge of $11 related to Alcan's share of construction contract losses and restructuring costs at Nippon Light Metal Company, Ltd. (NLM) in Japan. The second quarter of 1998 included an after-tax charge of $16 related to Alcan's share of restructuring costs at NLM. The third quarter of 1998 included an after-tax gain of $20 for exchange revaluation of the Company's accumulated deferred tax liability and after-tax charges of $7 for rationalization costs in Europe. The fourth quarter of 1998 included an after-tax gain of $140 from the sale of a portion of the Company's investment in NLM, an after-tax loss of $120 from the write-down for impairment of the Aughinish alumina refinery assets to be sold in 1999, an after-tax gain of $8 principally from the sale of Handy Chemicals Ltd., and $9 from rationalization costs in Europe and Asia.*

The first quarter of 1997 included an after-tax gain of $10 from the sale of a business and $26 from a favourable tax adjustment related to prior years. The third quarter of 1997 included a special charge of $30 after tax related to Alcan's share of contract losses and restructuring provisions at 45.6%-owned NLM.

The first quarter of 1996 included an after-tax charge of $12 on the in-substance defeasance of debentures. The third quarter of 1996 included an after-tax gain of $8 from the sale of businesses.

[2] *Net income per common share calculations are based on the average number of common shares outstanding in each period.*

[3] *See note 5 to the consolidated financial statements for explanation of differences between Canadian and U.S. GAAP.*

Eleven-Year Summary

	1998	1997	1996
Consolidated Income Statement Items *(in millions of US$)*			
Revenues			
Sales and operating revenues	7,789	7,777	7,614
Other income	231	88	75
Total revenues	8,020	7,865	7,689
Costs and expenses			
Cost of sales and operating expenses	6,076	6,005	5,919
Depreciation	462	436	431
Selling, administrative and general expenses	448	444	422
Research and development expenses	70	72	71
Interest	92	101	125
Other expenses	219	54	88
Income taxes	210	248	212
Equity income (loss)	(48)	(33)	(10)
Minority interests	4	(4)	(1)
Net income (Loss) before extraordinary item	399	468	410
Extraordinary gain (loss)	—	17	—
Net income (Loss)	399	485	410
Preference dividends	10	10	16
Net income (Loss) attributable to common shareholders	389	475	394
Consolidated Balance Sheet Items *(in millions of US$)*			
Operating working capital	1,682	1,483	1,461
Property, plant and equipment – net	5,897	5,458	5,470
Total assets	9,901	9,374	9,228
Total debt	1,789	1,515	1,516
Deferred income taxes	747	969	996
Preference shares	160	203	203
Common shareholders' equity	5,359	4,871	4,661
Per Common Share *(in US$)*			
Net income (Loss) before extraordinary item	1.71	2.02	1.74
Net income (Loss)	1.71	2.09	1.74
Dividends paid	0.60	0.60	0.60
Common shareholders' equity	23.71	21.43	20.57
Market price – NYSE close	26.81	27.69	33.63
Operating Data *(in thousands of tonnes except for LME price)*			
Consolidated aluminum shipments			
Ingot products*	829	858	810
Fabricated products	1,823	1,694	1,539
Fabrication of customer-owned metal	289	276	258
Total aluminum shipments	2,941	2,828	2,607
Consolidated primary aluminum production	1,481	1,429	1,407
Consolidated aluminum purchases	1,227	1,254	1,003
Consolidated aluminum inventories *(end of year)*	469	451	408
Primary aluminum capacity**			
Consolidated subsidiaries	1,706	1,558	1,561
Total consolidated subsidiaries and related companies	1,706	1,695	1,698
Average three-month LME price *(US$ per tonne)*	1,379	1,620	1,536
Other Statistics			
Cash from operating activities *(in millions of US$)*	739	719	981
Capital expenditures *(in millions of US$)*	877	641	482
Ratio of total borrowings to equity *(%)*	24:76	23:77	23:77
Average number of employees *(in thousands)*	36	33	34
Common shareholders – registered *(in thousands at end of year)*	20	21	22
Common shares outstanding *(in millions at end of year)*	226	227	227
Registered in Canada *(%)*	60	61	61
Registered in the United States *(%)*	39	39	39
Registered in other countries *(%)*	1	—	—
Return on average common shareholders' equity *(%)*	7	10	9
Before extraordinary item *(%)*		10	

* *Includes primary and secondary ingot and scrap.*

** *Primary aluminum capacity has been restated to reflect better the actual production levels achieved over a period of time.*

1995	1994	1993	1992	1991	1990	1989	1988
9,287	8,216	7,232	7,596	7,748	8,757	8,839	8,529
100	109	75	69	82	162	208	97
9,387	8,325	7,307	7,665	7,830	8,919	9,047	8,626
7,247	6,740	6,002	6,300	6,455	6,996	6,682	6,072
447	431	443	449	429	393	333	316
484	528	551	596	635	659	600	525
76	72	99	125	131	150	136	132
204	219	212	254	246	197	130	137
61	95	106	118	163	65	62	91
326	112	(13)	(17)	(104)	126	350	497
(3)	(29)	(12)	53	89	211	97	97
4	(3)	1	(5)	—	(1)	(16)	(22)
543	96	(104)	(112)	(36)	543	835	931
(280)	—	—	—	—	—	—	—
263	96	(104)	(112)	(36)	543	835	931
24	21	18	23	20	22	21	30
239	75	(122)	(135)	(56)	521	814	901
1,731	1,675	1,314	1,460	1,717	1,842	1,774	1,764
5,672	5,534	6,005	6,256	6,525	6,167	5,260	4,280
9,736	10,003	9,812	10,154	10,843	10,681	9,518	8,627
1,985	2,485	2,652	2,794	3,024	2,648	1,734	1,530
979	914	888	955	1,126	1,092	1,044	1,006
353	353	353	353	212	212	212	211
4,482	4,308	4,096	4,266	4,730	4,942	4,610	4,109
2.30	0.34	(0.54)	(0.60)	(0.25)	2.33	3.58	3.85
1.06	0.34	(0.54)	(0.60)	(0.25)	2.33	3.58	3.85
0.45	0.30	0.30	0.45	0.86	1.12	1.12	0.59
19.84	19.17	18.28	19.06	21.17	22.19	20.30	18.06
31.13	25.38	20.75	17.63	20.00	19.50	22.88	21.75
801	897	887	870	866	857	743	832
1,733	1,763	1,560	1,389	1,333	1,488	1,518	1,446
225	189	91	206	145	81	75	80
2,759	2,849	2,538	2,465	2,344	2,426	2,336	2,358
1,278	1,435	1,631	1,612	1,695	1,651	1,643	1,619
1,365	1,350	865	675	591	646	718	716
449	435	403	418	463	447	539	480
1,561	1,561	1,711	1,711	1,676	1,685	1,685	1,680
1,712	1,712	1,862	1,862	1,827	1,836	1,836	1,831
1,830	1,500	1,161	1,278	1,333	1,636	1,916	2,306
1,044	65	444	465	659	760	970	1,370
441	356	370	474	880	1,367	1,466	676
29:71	35:65	37:63	37:63	37:63	33:67	26:74	26:74
39	42	46	49	54	57	57	56
23	26	28	32	34	38	40	41
226	225	224	224	223	223	227	228
61	55	59	69	68	54	44	54
38	44	40	30	31	44	54	43
1	1	1	1	1	2	2	3
5	2	(3)	(3)	(1)	11	19	24
11							

All per-share amounts reflect the three-for-two share split on May 9, 1989.
See note 5 to the consolidated financial statements for U.S. GAAP information.

Corporate Governance

The business and affairs of Alcan are managed by its Board of Directors acting through the Management of the Company. The Directors and Officers of Alcan are named on the opposite page. In discharging its duties and obligations, the Alcan Board acts in accordance with the provisions of the Canada Business Corporations Act, the Company's constituting documents and by-laws and other applicable legislation and Alcan policies.

Alcan does not have a controlling shareholder nor do any of the Directors represent the investment of any minority shareholder.

Corporate governance has traditionally received the active attention of Alcan's Board. For instance, an intensive review of the guiding principles of Alcan conducted by the Board in the 1970s led to the publication in 1978 of a policy statement entitled *Alcan, Its Purpose, Objectives and Policies,* which has remained fundamentally unchanged. This statement represents the basic business principles that guide Alcan employees in conducting a widespread international enterprise and has helped Alcan achieve public understanding and trust. To that original document, a *Code of Conduct* was added in 1996 to reinforce it with more detailed guidelines for Alcan employees as well as consultants and contractors engaged by Alcan.

The Montreal and Toronto stock exchanges now require a formal description of corporate governance practices by all listed companies. Alcan's disclosure in this regard is published in the Management Proxy Circular issued in connection with the forthcoming Annual Meeting; a copy is available from Shareholder Services at the address on page 69.

Committees of the Board (described briefly at right) assist the Board in carrying out its functions and make recommendations to it on various matters. Membership of these Committees is indicated on the opposite page.

The **Corporate Governance Committee** has the responsibility for reviewing Board practices and performance, candidates for directorship and Board Committee membership. It also considers recommendations from the Personnel Committee regarding Board compensation and the appointments of the Chairman of the Board and the Chief Executive Officer.

The **Audit Committee** assists the Board in fulfilling its functions relating to corporate accounting and reporting practices as well as financial and accounting controls, in order to provide effective oversight of the financial reporting process; it also reviews financial statements as well as proposals for issues of securities.

The **Environment Committee** has the responsibility for reviewing policy, management practices and performance of Alcan in environmental matters.

The **Personnel Committee** has the responsibility for reviewing all personnel policy and employee relations matters (including compensation), and for making recommendations to the Corporate Governance Committee on Board compensation and on the appointments of the Chairman of the Board and the Chief Executive Officer.

A special committee composed of members of the Personnel Committee administers the Alcan Executive Share Option Plan.

Directors and Officers

(As at February 11, 1999)

Directors

John R. Evans, C.C.[1, 3, 8]
Chairman of the Board
of Alcan Aluminium Limited, Montreal
Age 69, director since 1986

Sonja I. Bata, O.C.[5, 7]
Vice Chairman, Bata Shoe Foundation, Toronto
Age 72, director since 1979

W. R. C. Blundell, O.C.[2, 7]
Director of various companies, Toronto
Age 71, director since 1987

Jacques Bougie, O.C.[5]
President and Chief Executive Officer
of Alcan Aluminium Limited, Montreal
Age 51, director since 1989

Warren Chippindale, F.C.A., C.M.[1, 4, 7]
Director of various companies, Montreal
Age 70, director since 1986

Travis Engen[1, 5, 7]
Chairman, President and Chief Executive Officer
of ITT Industries, Inc., New York
Age 54, director since 1996

Allan E. Gotlieb, C.C.[3, 5, 7]
Director of various companies, Toronto
Age 70, director since 1989

J. E. Newall, O.C.[3, 6, 7]
Chairman and Director of
NOVA Chemicals Corporation, Calgary
Age 63, director since 1985

Dr. Peter H. Pearse, C.M.[5, 7]
Natural resources consultant, Vancouver
Age 66, director since 1989

Sir George Russell, C.B.E.[1, 3, 7]
Chairman of 3i Group plc, London
Age 63, director since 1987

Guy Saint-Pierre, O.C.[1, 7]
Chairman of SNC-Lavalin Group Inc., Montreal
Age 64, director since 1994

Gerhard Schulmeyer[1, 7]
President and Chief Executive Officer
of Siemens Corp., New York
Age 60, director since 1996

Paul M. Tellier, C.C.[7]
President and Chief Executive Officer
of Canadian National Railway Company,
Montreal
Age 59, director since 1998

Officers

Jacques Bougie
President and Chief Executive Officer

Robert L. Ball
Executive Vice President

Claude Chamberland
Executive Vice President,
Technology and Major Projects

Jean-Pierre M. Ergas
Executive Vice President,
Europe

Richard B. Evans
Executive Vice President,
Fabricated Products – North America

Emery P. LeBlanc
Executive Vice President,
Alumina and Primary Metal

Everaldo N. Santos
Executive Vice President,
South America

Brian W. Sturgell
Executive Vice President, *Asia/Pacific and Corporate Development*

Suresh Thadhani
Executive Vice President and
Chief Financial Officer

Cynthia Carroll
Vice President, *Bauxite, Alumina and Chemicals*

Daniel Gagnier
Vice President, Corporate and
Environmental Affairs

Gaston Ouellet
Vice President, Human Resources,
Occupational Health and Safety

P. K. Pal
Vice President, Chief Legal Officer
and Secretary

*Glenn R. Lucas**
Treasurer

Denis G. O'Brien
Controller

[1] *Member of Audit Committee*
[2] *Chairman of Audit Committee*
[3] *Member of Personnel Committee*
[4] *Chairman of Personne[l] Committee*
[5] *Member of Environme[nt] Committee*
[6] *Chairman of Environment Committ[ee]*
[7] *Member of Corporate Governance Committe[e]*
[8] *Chairman of Corporat[e] Governance Committe[e]*

* *Effective April 1, 199[9]*

Common Shares

The principal markets for trading in Alcan's common shares are the New York and Toronto stock exchanges. The common shares are also traded on the Montreal, Vancouver, Chicago, Pacific, London, Paris, Brussels, Amsterdam, Frankfurt and Swiss stock exchanges.

The transfer agents for the common shares are CIBC Mellon Trust Company in Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver, Chase Mellon Shareholder Services, L.L.C. in New York, and CIBC Mellon Trust Company in England.

Common share dividends are paid quarterly on or about the 20th of March, June, September and December to shareholders of record on or about the 20th of February, May, August and November, respectively.

Preference Shares

The preference shares are listed on the Montreal, Toronto and Vancouver stock exchanges. The transfer agent for the preference shares is CIBC Mellon Trust Company.

Investment Plans

The Company offers holders of common shares two convenient ways of buying additional Alcan common shares without payment of brokerage commissions. These are known as the Dividend Reinvestment Plan and the Share Purchase Plan. Copies of the prospectus describing these Plans may be obtained from Shareholder Services at the address on page 69.

Securities Reports for 1998

The Company's Annual Information Form, to be filed with the Canadian securities commissions, and the annual 10-K report, to be filed with the Securities and Exchange Commission in the United States, will be available to shareholders after April 1, 1999. Copies of both may be obtained from Shareholder Services at the address on page 69.

	Dividend	Prices* and Average Daily Trading Volumes							
		New York Stock Exchange *(US$)*				Toronto Stock Exchange *(CAN$)*			
1998 Quarter	US$	High	Low	Close	Avg. Daily Volume	High	Low	Close	Avg. Daily Volume
First	0.150	34 1/2	24 1/2	31 1/4	371,616	48.50	35.10	44.25	563,447
Second	0.150	33 7/16	25 15/16	27 10/16	400,443	47.95	38.25	40.50	482,864
Third	0.150	28 3/16	18 11/16	23 7/16	322,500	41.60	28.30	36.15	486,748
Fourth	0.150	28 15/16	21 3/4	27 1/16	456,005	44.85	33.60	41.50	585,815
Year	0.600								
1997 Quarter									
First	0.150	38 1/4	33 3/8	33 7/8	562,300	52.25	45.70	46.75	641,900
Second	0.150	37 7/8	30 1/2	34 11/16	430,900	52.10	42.65	47.10	587,800
Third	0.150	40 5/16	33 1/2	34 3/4	470,600	55.70	46.65	48.40	547,600
Fourth	0.150	35 13/16	26 1/16	27 5/8	499,133	49.25	37.10	39.40	679,694
Year	0.600								

* *The share prices are those reported as "New York Stock Exchange – Consolidated Trading" and reported by The Toronto Stock Exchange. Since April 15, 1996, share prices on The Toronto Stock Exchange are expressed in decimals.*

Further Information

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The Alcan Group Worldwide*

(As at February 11, 1999)

Parent Company and World Headquarters

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North America

Bermuda
Alcan (Bermuda) Limited
Alcan Nikkei Asia Holdings Ltd. (60%)[1]

Canada
Alcan Aluminium Limited
Alcan Cable
Alcan Chemicals
Alcan Foil Products
Alcan International Limited
Alcan Smelters and Chemicals Limited

Jamaica
Alcan Jamaica Company

United States
Alcan Aluminum Corporation
Alcan Cable
Alcan Chemicals
Alcan Foil Products
Alcan Global Automotive Products
Alcan Ingot
Alcan Light Gauge Products
Alcan Sheet Products

South America

Brazil
Alcan Alumínio do Brasil Ltda.
Consorcio Alumínio do Maranhão – Alumar (10%)[2]
Mineração Rio do Norte S.A. (12.5%)
Petrocoque S.A. – Industria & Comércio (25%)

Africa

Ghana
Ghana Bauxite Company Limited (80%)

Guinea
Compagnie des Bauxites de Guinée (16.8%)

Europe

France
Alcan France (Technal)

Germany
Alcan Deutschland GmbH
Aluminium Norf GmbH (50%)

Italy
Alcan Alluminio S.p.A.

Norway
Vigeland Metal Refinery A/S (50%)

Spain
Alcan Iberica S.A.

Switzerland
Alcan Aluminium AG
Alcan Rorschach AG

United Kingdom
British Alcan Aluminium plc

Pacific

Australia
Alcan South Pacific Pty Ltd.
Queensland Alumina Limited (21.4%)

China
Alcan Asia Limited
Alcan Asia Pacific Limited
Alcan Nikkei China Limited (49%)[1]
Alcan Nikkei Korea Limited (49%)[1]
Nonfemet International (China-Canada-Japan) Aluminium Company Limited (27%)[1]

India
Indian Aluminium Company, Limited (54.6%)

Japan
Alcan Asia Limited (Tokyo Branch)

Korea
Alcan Nikkei Korea Limited (Seoul Branch)

Malaysia
Alcan Nikkei Asia Company Ltd. (60%)[1]
Aluminium Company of Malaysia Berhad (35.5%)[1]
Alcom Nikkei Specialty Coatings Sdn Bhd (47.7%)[1]

Thailand
Alcan Nikkei Siam Limited (42%)[1]
Alcan Nikkei Thai Limited (46.6%)[1]

Visit Alcan's Web Site:

www.alcan.com

Further information on Alcan and its activities is available on Alcan's World Wide Web site and contained in various Company publications. These publications, such as *A Commitment to Continual Environmental Improvement* as well as Alcan's Environmental and Health and Safety policies, are available by writing to the address shown at upper left.

Version française

Pour obtenir la version française de ce rapport, veuillez écrire aux Services aux actionnaires dont l'adresse figure dans le coin supérieur gauche.

* *This list names only the principal businesses of the Alcan Group and reflects the sale of alumina refining operations in Ireland and Guinea and of a chemicals operation in Canada as well as the reduction of the interest held in Nippon Light Metal Company, Ltd. (NLM) in Japan. A complete list is contained in the Company's 10-K Report, available from Alcan's headquarters in Montreal.*

[1] *Alcan holds additional interest indirectly through its portfolio investment, NLM.*
[2] *Interest in the Alumar alumina refinery is held through Alcan Alumínio do Brasil Ltda.*

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